FINANCIAL TIMES

EUROPE'S BUSINESS NEWSPAPER

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European steel: Crunch time for plant closures, Page 26

World News

Philippines troops clash with NPA rebels

Philippine government troops clashed with communist rebels of the New People's Army, about 40 miles north of Manila following renewed fighting last week. Helicopter gunships and Philippines marines were sent in to help government infantry. At least three soldiers were reported killed. Politician attacks foreign debt, Page 2

Kuwait crackdown

Kuwait has begun a crackdown on tens of thousands of foreigners living there illegally in an effort to tighten security following the recent spate of sabotage attacks ascribed to Moslem fundamentalists. Page 2

23 die in bus crash

At least 23 people, including three children, were killed and more than 50 were injured when an overcrowded Bangladesh bus skidded into a flooded canal about 25 kilometres from Dhaka.

Bush in Poland

US Vice-President George Bush met General Wojciech Jaruzelski, the Polish leader, on the second day of his visit to Poland, designed to speed up an improvement in relations which broke down six years ago when martial law was imposed. Page 5

Tamil leader dies

Violence broke out in eastern Sri Lanka after the death of a Tamil militia leader after a 12-day hunger strike. Page 6

Cairo metro opens

President Hosni Mubarek of Egypt and Jacques Chirac, the French Prime Minister, inaugurated Cairo's underground rail system, largely financed through soft loans and credits from France. Page 5

Talks on Angola

Jose Eduardo dos Santos, the first Angolan President to visit Portugal since independence 12 years ago, is in Lisbon to mend a potentially rich relationship strained by five centuries of colonialism. Page 6

Basque car bomb

A car bomb killed a policeman and injured six others in the Basque city of San Sebastian. The bomb, hidden in a parked car, exploded as the officer drove past. No group claimed responsibility but police suspected the Basque separatist organisation Eta.

Journalists face jail

Two Taiwanese journalists who visited China in open defiance of a ban on contacts with Peking returned home to face a possible three year jail sentence.

Blast in Athens

Police investigating a bomb blast outside a US forces commissary in central Athens found and dismantled a second explosive device near the building. The explosion outside the commissary shattered windows but caused no injuries.

Hong Kong rally

Nearly 5,000 people attended a rally in a Hong Kong park to press for direct legislative elections three days before the government ends a period of public consultation on political reforms

New Peru minister

The Peruvian Government named a senior ruling party member, Alberto Vera la Rosa, 61, an engineer, as Industry Minister, replacing a businessman who resigned two weeks ago in opposition to President Alan Garcia's plan to nationalise private banks.

Found in the hay

Israeli soldiers found three Palestinians in a hay-filled lorry bound for Egypt, five days after they escaped from the Nafaha maximum security prison.

Mansell wins GP

Briton Nigel Mansell won the Spanish Grand Prix in Jerez, to keep alive his hopes of winning the drivers' championship.

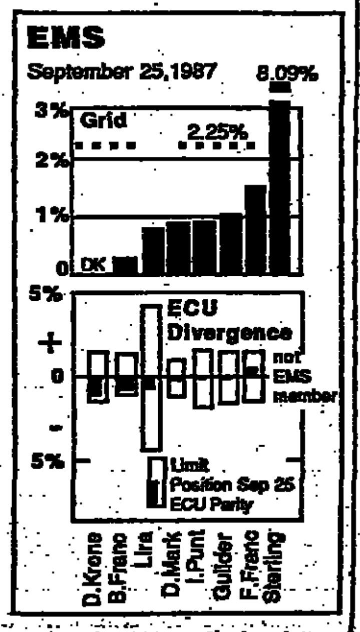
Business Summary

Storehouse faces £2bn bid by Benlox

BENLOX HOLDINGS, small UK engineering and investment dealing group, launched a £2bn ($3.28bn) all-share bid for Storehouse, UK retailing group headed by Sir Terence Conran. Benlox, which is 21.7 per cent owned by Egyptian financier Dr Ashwan Marwan, said it would "demerge" the group into a number of specialist retail stores. Page 8

EUROPEAN Monetary System: Most currencies showed little overall change from the previous week, with many markets subdued ahead of the weekend IMF and G7 meetings. For the same reason the dollar was confined to a narrow range and consequently there was no pressure on the weaker members of the system.

The Danish krone remained the weakest currency, followed by the Belgian franc. The French franc remained the only member to show an improvement in relation to its Ecu central rate. Page 16



The chart shows the two constraints on European Monetary System rates. The upper grid, based on the weakest currency in the system, defines the cross-rates from which no currency (except the lira) may move more than 2¼ per cent. The lower chart gives each currency's divergence from the "central rate" against the European Currency Unit (Ecu), a basket of European currencies.

NEW YORK Stock Exchange intervened over the weekend in the tangled legal battle for control of Newmont Mining, the US gold and energy group, when it attempted to uphold last week's huge purchase of Newmont Mining stock by Consolidated Gold Fields, the UK mining finance house. Page 29

BOC, British group of gas and health care companies, has formed a joint venture with with a chemicals company in Shanghai operate China's first liquefied gas plant. Page 8

AMSTRAD, UK consumer electronics company, is likely to announce today the purchase of Indescomp, the Madrid-based distribution company that has helped it dominate the Spanish personal computer market. Page 8

UK ENGINEERING: Employment, which was more than 3m in 1980, looks like to fall below 2m within two years, according to the employers' federation. Page 9

QUEBEC Securities Commission has charged seven people, including former province Conservative president Peter Blaikie, with insider dealing in shares of Montreal company Memotec Data. Page 2

ASEA, Swedish electrical engineering group, has reached agreement with local trade unions on its planned merger with BBC Brown Boveri of Switzerland to form the world's largest electrical engineering concern. Page 32

FRENCH industrialist Bernard Tapie is giving up taking over and rebuilding failed companies and is reorganising his interests, forming a FFr800m ($165m) holding company Bernard Tapie Finances. Page 32

Reagan bids to cut deficit as G7 tries to steady markets

BY PHILIP STEPHENS AND STEWART FLEMING IN WASHINGTON

LEADING INDUSTRIAL nations sought this weekend to calm financial markets by pledging to seek continued exchange rate stability and to underpin it, if necessary, with further shifts in economic policies.

The reaffirmation of February's Louvre accord to stabilise the dollar came as President Reagan announced he would sign a bill which the Administration said would pave the way for further cuts in the US budget deficit.

A communique released by Finance Ministers and central bankers of the Group of Seven particularly welcomed the President's announcements. Along with promises by Japan and West Germany to maintain growth in their economies, it would reinforce efforts to stabilise exchange rates around current levels, the communique said.

In a co-ordinated display of public unanimity clearly aimed at reassuring the markets, the Finance Ministers insisted that there had been no dispute over the renewed commitment to support the dollar.

Mr Nigel Lawson, Britain's Chancellor of the Exchequer, said that the seven - the US, Japan, West Germany, France, Britain, Canada and Italy - had not altered the unpublished currency ranges set in February.

Beneath the surface of the talks, however, there were signs of unease over the rising trend of interest rates in the industrialised world and over the ability of central banks to sustain their recent level of intervention to prop up the US currency.

West Germany faced private criticism over the slow pace of growth in its economy while Japan was pressed for assurances that it would continue to hold down interest rates.

Mr James Baker, the US Treasury Secretary, said yesterday that the trade imbalances between the US, Japan and West Germany remained large. He added that slow growth in Europe was also a matter of concern.

Mr Baker said that he would propose further measures later this week to strengthen co-ordination of policies through the use of economic performance indicators for the major economies. Other Finance Ministers, however, remained highly sceptical about US attempts to translate the indicators into a more rigid framework for policy decisions.

The Treasury Secretary's comments came as it emerged that confidential forecasts presented to the ministers by the International Monetary Fund suggest that the US current account deficit is likely to remain at unsustainable levels in the early 1990s.

The projections indicate that, on the basis of current exchange rates and unchanged policies in the largest economies, the US deficit would remain at $150bn in 1991. Japan would still have a surplus of $70bn and West Germany one of $30bn.

That would imply a build-up in US net indebtedness to the rest of the world of $1,600bn by

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IMF warning, Page 2

Post-coup talks take Fiji nearer to declaring a republic

By Chris Sherwell in Suva

FIJI moved a step closer to becoming a republic yesterday following a critical meeting between Colonel Sitiveni Rabuka, the South Pacific island state's military ruler, and Ratu Sir Penaia Ganilau, the Governor-General.

The republic could be declared as soon as October 10, the anniversary of independence from Britain in 1970.

At the meeting, the first since Col Rabuka reasserted control of the country's government on Friday by staging the second coup this year, Col Rabuka, asked the Governor-General, "to let us run things as we see fit." Col Rabuka said afterwards he felt Fiji had no other path open except to declare a republic.

Such a course would automatically take Fiji out of the Commonwealth and it would have to reapply for readmission. The crisis will be a major topic at the forthcoming Commonwealth heads of government conference at Vancouver to which Fiji seems certain not to be invited.

Yesterday's meeting coincided with a decision by the country's supreme court judges to join the Governor-General in opposing the imposition of military rule. But last night they appeared powerless to halt a move which would entail a break with the Commonwealth, incalculable economic damage and increased racial tension.

Col Rabuka indicated that he would like to see the Governor-General become president of a new republic. But Ratu Ganilau, who has been consulting friends during the weekend and has been in touch with the Queen, seems unlikely to accept such a role. He had been planning to swear in an interim government today with portfolios divided between the two main political parties.

In a tough declaration of support, 11 senior judges sent a letter to the Governor-General saying: "We are resolved not to render service as judges to any regime or organisation, by whatever name it may describe itself, which opposes Your Excellency's lawful authority or attempts unlawfully to change the constitution".

The judges also expressed "profound concern for, and condemnation of, the unlawful detention by the security forces of a number of citizens who include two of our brother judges and a magistrate which, to say the least, makes a mockery of the rule of law."

Others detained include Dr Timoci Bavadra, the Prime

Continued on Page 28

Saddam must go to end Gulf war, says Iran

BY ANDREW GOWERS AND RICHARD JOHNS

PRESIDENT Saddam Hussein of Iraq must be removed from power as a condition for ending the Gulf conflict, Mr Ali Akbar Hashemi Rafsanjani, the Speaker of Iran's parliament, reaffirmed at the weekend.

His statement, which came as Iraq intensified attacks on Iranian shipping targets in the Gulf, has cast gloom over resumed efforts at the United Nations to bring about a ceasefire in the conflict. It may also resurrect the immediate prospect of a global arms embargo against Iran.

Iran has insisted since 1982 on the overthrow of President Hussein as a precondition for ending the Gulf War. However, in the last two weeks it had appeared to have been playing down this issue amid UN peace efforts.

"The Islamic Republic is firm in its resolve not to halt its holy war until the Iraqi people are delivered from Saddam," Mr Rafsanjani told a meeting in Tehran.

At the weekend, Baghdad vowed once again that it would "punish" Iran until it accepted UN Security Council resolution 598, which calls for a ceasefire and a withdrawal to pre-war borders.

Mr Rafsanjani's remarks are likely only to complicate the delicate balancing act facing Mr Javier Perez de Cuellar, the UN Secretary General, and Security Council members as they explore ways of structuring a possible impartial enquiry on the origins of the conflict. This would have to fit in with Iran's demand that Iraq be named as the original aggressor, as a precondition to a ceasefire, without at the same time alienating Iraq.

If the ousting of Mr Hussein emerges as an essential condition, the whole diplomatic effort could be rendered futile. Apart from Iraq's objections, the five permanent members of the Security Council would find the demand unacceptable.

An intensive series of meetings in New York last week during the UN General Assembly ended with an agreement among the five permanent council members - the US, Soviet Union, France, Britain and China - to 'further steps to ensure compliance' with UN resolution 598.

Discussions will focus this week on an Iranian proposal for a two-part enquiry into the beginnings of the conflict which it blames Iraq for starting. The first part would be brief and establish basic facts about the war, while the second would be more protracted and discuss such issues as reparations.

In the first part of the inquiry Iran has said it would observe a de facto ceasefire, turning this into a formal one and a withdrawal to pre-war boundaries with the publication of the first phase's conclusions.

However, there remain considerable problems.

Although Iran has promised to accept an enquiry's conclusions it says it assumes that the proposed tribunal would blame Iraq. UN member states are worried that unless there is a formal ceasefire and withdrawal before the enquiry does its work, there would be nothing to prevent Iran from resuming the war with fresh vigour if it is not satisfied with the verdict.

Banks give cool reception to Brazil's new debt plan

BY ALEXANDER NICOLL IN WASHINGTON

BRAZIL has met a cool reception from leading creditor banks to its request for $10.4bn *in new loans, lower interest* rates and conversion of some of its $68bn debt to banks into bonds.

Mr Fernando Milliet, Brazil's central bank president, presented banks with an 11 page plan, designed to set a framework for solving the country's debt problems at a seven hour meeting in Washington on Friday. The Advisory Committee of creditor banks, headed by Citibank, is treating the proposal as a starting point for negotiations that it hopes will lead to an end to the seven month halt in interest payments by Brazil.

But in a telex to over 600 other creditor banks worldwide, the committee said that what it termed the 'broad, general proposal' which it was passing on 'in no way reflects the views of the committee.'

'Many important points are not addressed by the proposal or are only treated generally,' it said.

One banker said: 'The committee was not the least bit impressed either by the approach or by the lack of specifics.'

It did, however, agree to meet the Brazilians in working groups to seek clarification of various aspects of the plan, and *to reassemble in full session* with them next Friday in New York.

As banks prepared to dig in against setting important precedents for the handling of the five-year-old Third World debt crisis, their position was bolstered by a tough new stance adopted by Brazil's official creditors.

The Paris Club grouping of sovereign creditors told Brazil that a January agreement to reschedule debt due to them in the first half of 1987 was now void because Brazil had not pursued economic policies which could be endorsed by the International Monetary Fund.

The US, which in January forced through the first Paris Club agreement without a formal IMF agreement being in place, has joined other countries in insisting on an IMF record before a further rescheduling is agreed. Although Brazilian officials have been in talks with the IMF and the World Bank, the precise nature of the agreements it is seeking from them remains unclear.

Banks objections to the Brazilian plan centre on the country's attempt to isolate them from other creditors.

The refinancing sought by Brazil from banks would not be linked either to its economic performance or to any contributions by official lenders to Brazil's financing requirements. 'We cannot accept that,' said Mr Jean-Maxime Leveque, chairman of Credit Lyonnais, which is a member of the advisory committee.

Bankers object to the interest rate sought by Brazil, at no margin at all over London interbank offered rates. And they say that other parts of the plan are too vague either to understand or to pronounce upon.

Brazil is painting its plan as a mixture of the conventional approach - new loans and debt rescheduling - and a new more radical treatment of the debt problem involving the conversion of loans into bonds.

Brazilian officials have stressed, however, that the proposal is an outline intended for negotiation, and most bankers welcomed this approach as a softening of the confrontational stance Brazil has taken since February.

Montedison plans $785m rights issue

BY ALAN FRIEDMAN IN MILAN

MONTEDISON, the Italian chemicals, pharmaceuticals and financial services group, plans to raise L1,028bn ($785m) through a rights issue in Italy and the US.

The issue - the largest such fund raising operation by an Italian company this year - will provide part of the nearly $1.5bn Montedison needs to pay for a 38.5 per cent stake in Himont, the polypropylene joint venture launched in 1983 with Hercules, the US chemicals group.

One-third of the rights issue - which was approved by the Montedison board on Saturday - will be placed in Wall Street.

As well as going towards the purchase of the Himont stake, the proceeds will help to reduce Montedison's debt:equity ratio, which has jumped considerably in the past month as the group has committed a total of $2bn to acquisitions.

Montedison's net consolidated debt burden now stands at L7,600bn, or 1.3 times the group's equity base. After the rights issue the debt:equity ratio will come down to 0.9 times

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Eurocredits, page 29.

North Atlantic shipping accord faces EC competitions probe

BY KEVIN BROWN, TRANSPORT CORRESPONDENT, IN LONDON

THE European Commission is investigating claims that a pricing agreement between shipping companies on the North Atlantic is in breach of Community competition law.

The investigation is the first under the Community's maritime regulations, which became law in July, effectively extending the competition provisions of the Treaty of Rome to ocean transport.

The result of the investigation will clarify the extent to which the regulations permit pricing agreements, which are common in world shipping. It could also lead to a conflict between EC and US maritime law, since the North Atlantic agreement operates with the approval of the Federal Maritime Commission.

The agreement, known as Eurocorde, is between the North Europe US Atlantic Conference (Neac) and two independent carriers - Polish Ocean Lines and Evergreen Lines of Taiwan, the world's biggest container carrier.

The members of Neac include Sea Land, a major US container carrier; Transfreight Lines, a subsidiary of Peninsular and Oriental Steam Navigation; Dart Line, part of the Hong Kong based C.Y.Tung group; Hapag-Lloyd, the biggest West German shipping line; and Atlantic Container Lines (ACL), a consortium of six European shipping companies.

The British Shippers Council, which represents around 14,000 UK importers and exporters, has filed a formal complaint with the Commission, alleging that Neac, Evergreen and Pol control 90 per cent of traffic between northern Europe and the US.

The Council claims that this market strength has been used to force around 10 smaller competitors out of the market, and to force up freight rates above their natural level.

Mr Chris Welsh, the Council's shipping executive, said a 17-page dossier deposited with the Commission showed there was a clear correlation between market share and rate levels.

Mr Jan van de Nadort, ACL's conference policy manager, said advice in both Brussels and New York indicated that the agreement was legal under both US and EC regulations.

"It is a normal conference agreement of the sort that exists all over the world, where parties are allowed to sit round a table and discuss all sorts of issues. It is not an anti-competitive agreement," he said.

Mr van de Nadort said shipping companies trading between the US and Europe could face major difficulties in reconciling different legal codes if the Commission ruled in favour of the British Shipping Council.

"Shipping people have to learn quickly now that the competitive articles of the Rome Treaty have become applicable to us. But based on the way that the regulations are written, we believe that this is a proper agreement which should be exempt, he said."

The Commission has the power to declare the agreement null and void, and to impose fines or other sanctions on the companies involved.

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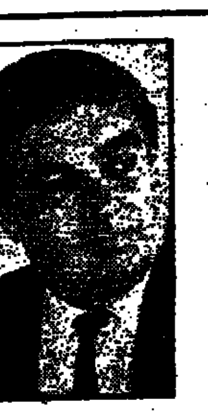

THE MONDAY PAGE INTERVIEW

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Philippine politicians attack deal on debt

BY RICHARD GOURLAY IN MANILA

THE PHILIPPINE senate indignantly debated last week the country's $28.3bn foreign debt and how payments of interest and principal eat up 36 per cent of the budget, much of which could be used to finance desperately needed economic growth.

Bankers and economists fear the issue has become so politically sensitive that the rescheduling agreed in July, to cover $13.2bn of debt, could be scuttled. Since President Corazon Aquino assailed the creditor banks on July 27 for "taking advantage" of the country's political difficulties (such as attempted coups) to force a rescheduling, four bills have been tabled in Congress.

One likely to reach the floor of the Senate comes from the Economic Affairs Committee. It would limit the foreign exchange allocated to debt service to the equivalent of 15 per cent of export earnings. At present, it accounts annually for 28 per cent of foreign exchange earnings and 42 per cent of export earnings.

Other proposed Senate measures include a call for a three-year moratorium on all principal payments (including those on official development assistance loans), selective repudiation of "fraudulent" loans, and a review of the entire debt agreement by Congress because the House of Representatives has the constitutional function of the allocation of funds.

Cory Aquino

PHILIPPINE Government troops clashed with communist rebels yesterday about 40 miles north of Manila, AP reports from the capital. Officials warned that residents there could suffere electricity shortages after guerrilla raids on power stations.

Sources in the Philippines Constabulary, the military's internal security force, said three helicopter gunships and a company of Philippine marines had been sent to help government infantry in action against guerrillas of the communist New People's Army in Bulacan province, 40 miles north of the capital.

A constabulary officer, speaking on condition he not be identified, said at least one soldier had been killed and several wounded. He had no reports of rebel losses.

The fighting followed renewed clashes last week in the five-province Bicol region in the south-east of Luzon island, after attacks on bridges and rail lines.

A small explosion was reported yesterday at the headquarters of the Constabulary. Sgt Bert Borawes said the blast in an outdoor rubbish container caused minor damage but no injuries. The cause of the explosion was unknown, he added.

Thirty of the 483 creditor banks have still not signed the July agreement, which would stretch principal payments over 17 years, with a seven-year grace period, and lower the interest spread over Libor to ⅞ per cent. The rescheduling agreement must be signed by 97 per cent of the banks by November 15.

The transaction that was most likely to derail the July agreement has been left ambiguous by a Senate vote. It concerns a $56m loan to a private fertiliser company, Planters Products, which Mrs Aquino agreed in July that the government would redeem so as to honour an undertaking made by the previous government.

Partly in response to the President's anger, the Senate voted on Friday to scrap the executive order. This would be enough to scuttle the rescheduling because Barclays Bank, leading a consortium of creditor banks, refused to sign the July agreement until the controversy over Planters Products had been settled.

However, the Senate committee accepted that the government should give Planters Products enough cash to ensure that its commitment can be met.

The required legislation will probably take until after the November 15 deadline for the rescheduling and it is too soon to say whether the alternative arrangement would be acceptable to the banks.

The tone of Senate debate last week shows that a warning sent by the then finance secretary, Mr Jaime Ongpin, on September 7, went unheeded. In his letter to the Senate, he said that any unjustified unilateral action against the creditor banks would send the country into default.

Most senators ignored these arguments and only one defended them.

Iraq attacks confirmed by salvage companies

By Our Middle East Staff

IRAQI claims to have struck three tankers off Kharg Island, Iran's main export terminal at the weekend, were confirmed yesterday by salvage companies in the Gulf.

The attacks raised tension just as diplomatic effors were being resumed at the UN in New York to persuade Iran to accept the call for a ceasefire embodied in Security Council resolution 598.

Iraq's air strikes also coincided with the arrival in Tehran of 26 Iranians and the bodies of three others who had been aboard the mine-laying vessel attacked by US helicopters on Monday.

The three vessels hit by missiles were all engaged on the shuttle service from Kharg Island to Larak Island near the Strait of Hormuz.

One of the three damaged tankers, the 225,668 deadweight ton Cypriot-registered Coral Cape, was hit twice by Exocet radar-seeking missiles late on Saturday and again yesterday while it was being towed to the port of Bushehr.

The other vessels confirmed as hit were the Liberian-registered Merlin and the Sirwan which flies the Iranian flag, according to shipping executives in the Gulf.

Iraq yesterday warned Iran that it faced "all-out war" if it did not comply with the cease-fire resolution which it has neither accepted nor rejected. Al Thawra, the newspaper of the ruling Arab Baath Socialist Party, in the same editorial comment also renewed Iraq's call for the Security Council to enforce its resolution of July 20 with sanctions against Iran.

Mr Tariq Aziz, Iraq's Foreign Minister, has rejected the suggestion that a halt to the fighting in the seven-year-old conflict could be coupled with the establishment of a commission to determine which of the belligerents started the war.

In an interview with the newspaper Al Ittihad of the United Arab Emirates he said that resolution 598 would have to be implemented in a clear sequence. First there should be a ceasefire, then a withdrawal of troops to international borders and finally a commission to determine which country was the aggressor.

Gatt urged to keep closer watch on trade and economies

BY PETER MONTAGNON, WORLD TRADE EDITOR

THE GENERAL Agreement on Tariffs and Trade should adopt active surveillance of trade and economic policy, if the entity is to cope with the twin problems of payments imbalances and rapid technological change, Ms Sylvia Ostry, a former chief economist of the Organisation for Economic Co-operation and Development, said in Washington.

"The need for institutional change in policy-making, both at home and internationally, is perhaps nowhere so acute as in trade policy," she said. She is now Canada's chief international trade negotiator.

Without such change, a world trading system which no government planned or desired might emerge, she told an audience of bankers and officials in the annual Per Jacobsson Lecture at the IMF annual meeting here.

The unique combination of major imbalances in the world economy and the onset of a new technological revolution had created a new climate, embracing both vulnerability and opportunity, she said.

The information revolution had brought an increasing trend towards international integration of production, services and markets, which in turn was likely to provoke further resistance to the international division of labour.

The Gatt Round could not preserve the world trading system on its own. Indeed, the abuse of trade policy could worsen payments imbalances and heighten disorder in exchange markets, she said.

Gatt should institute an effective, policy-based surveillance mechanism, involving enhanced analytic capacity in its secretariat, a designated forum at ministerial as well as official level, a link with its disputes settlement procedure and improved transparency of domestic policy-making procedures in member countries.

The purpose would be to exert peer group pressure at senior official and ministerial level for policy adjustment and implementation.

This would highlight the impact of trade-related policies on the country's domestic performance, on other countries trade opportunities, and on the system as a whole, she said.

Israeli deal ends public sector strike

ISRAEL'S largest labour federation and the Finance Ministry signed a wage agreement yesterday ending a strike by 150,000 public sector workers, Reuter reports from Tel Aviv.

Officials of the Histadrut Trade Federation and the Treasury agreed to a $50 monthly increase beginning in October, according to Treasury spokesman Mr Yitzhak Feinberg, Reuter reports from Tel Aviv.

The workers went on strike for three days last week after negotiations became deadlocked.

The agreement puts off a reduction in the working week until after a new two-year wage agreement is negotiated next spring.

The week ultimately will be cut from six days to five, Mr Feinberg said.

Only two of the 15 Histradut unions immediately accepted the agreement, but this was not expected to invalidate it.

Kuwait targets illegal foreigners

Fear of Iranian reprisals has led to strict security measures, reports Andrew Whitley

A NEW CRACKDOWN is under way on the tens of thousands of foreigners living illegally in Kuwait. It is one of the steps being taken to tighten security, following the recent spate of sabotage attacks ascribed to Moslim fundamentalists. It is also part of a general drift in Kuwait towards greater central control, accentuated since last year's closure of the National Assembly.

The Kuwaiti Government reckons that 1.13m people out of an estimated population of 1.87m—60 per cent of the total—are non-Kuwaitis. Despite repeated efforts to increase the number of native sons and stem the foreign inflow it is a percentage which continues to climb.

Those responsible for a series of mysterious fires and this year's bombings of oil installations are believed to be mostly Kuwaiti citizens but the people arrested have been members of the Shia Moslim minority, of Iranian extraction.

The authorities last week promulgated a series of measures to identify, and flush out, other Shia Moslims from Iraq, Iran or Lebanon who might make common cause with Kuwait's homegrown dissidents.

Fines have been increased for those in violation of residence and work sponsorship regulations and a three-month amnesty has been offered for those who have gone to ground, allowing them to leave the country with no questions asked. Billboards now show slogans such as "Civil card is essential for expatriates."

Announcing the new package the head of the Interior Ministry's immigration department, Khaled Al Munayes, said that those expatriates whose papers were not in order after the amnesty period faced stiff punishment. Every day dozens of over-stayers are bundled unceremoniously out of the country, but now they face fines and jail terms as well.

Officially, the response to the amnesty is said to have been good, but not even Mr Munayes knows the full dimensions of the problem. Despite regular mass deportations over the years, the number of foreigners is probably in excess of 100,000.

What particularly alarms the authorities, according to knowledgeable Kuwaitis, is the unknown number of people born in neighbouring states who have been passing themselves off as native Kuwaitis entitled to all the privileges and benefits which go with that status. For years they have got away without having to produce proper identity documents, trading on loud protestations that they were insiders.

Now successful Palestinian businessmen who have lived here for a quarter of a century, bringing up their families as Kuwaitis, are suddenly finding themselves unwelcome; many are stateless and have nowhere else to go. Pakistani civil servants, retiring after long years' service, are being handed their passports and told: "Thank you very much."

There are other nationalities; some 14,000 Filipinos alone are now working in hotels and shops and as domestics. But these are a different breed; short-term expatriates saving hard to send money home, whose stay in the country is closely regulated.

One surprise from Kuwait's 1985 census was the size of the Asian population, which at 356,000 has grown faster than the relatively stagnant non-Kuwaiti population of Arab origin, which numbers 643,000. Palestinians, between 300,000 and 400,000 of whom live in Kuwait, still form the largest and most important national group.

A handful of foreigners every year manage to pole-vault over the high bar put in the way of those seeking Kuwaiti citizenship. Muslim faith and 30 years' uninterrupted residence are two of the basic requirements, and the bar is being notched up all the time.

For the remaining 1m, all they can do is to keep their heads down, stay out of trouble, and hope that the economic goldrush which brought them to this particular patch of desert is reactivated soon.

Kim kidnapping in 1973 becomes political issue

BY MAGGIE FORD IN SEOUL

THE 1973 kidnapping of Mr Kim Dae Jung, the leading South Korean opposition politician, by South Korean intelligence agents while he was in Tokyo has become a political and diplomatic issue as the country moves toward democracy.

Journalists at two magazines are on strike in protest at a government ban on this month's issues which contain an interview with the head of the central intelligence agency at the time. Press reports suggest that the interviews contain an admission that the Government was behind the kidnapping.

Both Seoul and Tokyo said at the time that the abduction was a freelance effort. A number of Japanese politicians have said that the interview suggests there was a clear violation of Japanese sovereignty and the matter is to be raised in the Diet.

Mr Kim was seized at his hotel by the agents, blindfolded and tied up and forced on to a boat and taken to Seoul. He says that he feared being thrown overboard, but he was later released. Mr Kim, who almost beat former President Park in the 1971 election, was living abroad at the time, following the introduction of a new repressive constitution in 1972.

At a rally on Saturday in the industrial city of Inchon, Mr Kim told about 50,000 supporters that he wanted the Japanese and South Korean governments to reveal the truth about the kidnapping and to apologise to him. He was not asking for those responsible to be punished, he said, and he did not want to disrupt relations with Japan.

Fund warns of medium-term US deficit crunch

BY PHILIP STEPHENS IN WASHINGTON

THE International Monetary Fund yesterday warned that there are severe constraints on the ability of Central Banks to maintain stable exchange rates through intervention in currency markets or co-ordinated shifts in monetary policies.

In its latest World Economic Outlook, the Fund says that short-term measures aimed at influencing exchange rates can be justified if markets are disorderly, or when movements are considered too rapid. It adds, however, that in other circumstances efforts to influence rates must be ineffective or even counter-productive.

The Outlook paints a slightly more optimistic view of prospects for the world economy than the fund's last set of forecasts in April. It predicts a modest acceleration in economic growth and says there are signs of improvement in the massive trade imbalances between the US, Japan and West Germany.

It remains sceptical, however, that the present combination of policies and exchange rates in the largest economies will be enough to reduce the imbalances to sustainable levels.

Over the medium term, exchange rates respond to fundamental factors such as relative inflation rates, fiscal position, and growth rates, the Outlook says.

The use of monetary policy or interest rates to sustain stability, "has definite drawbacks as a longer term strategy."

Since February's Louvre Accord, the major industrial nations have relied heavily on widening interest rates differentials between the US and the rest of the world and on massive intervention to defend the dollar.

The IMF says, however, that interest rate policy should be directed first and foremost at countering inflationary expectations.

Evidence suggests that "sterilised intervention" — when central banks neutralise the impact on the money supply and on interest rates or currency sales — has only "a transitory effect on exchange rates".

If intevention is "unsterilised", its effect is likely to be more durable, but at the risk of undermining the confidence of financial markets in the determination of central banks to hold down inflation.

The Outlook concludes that the industrial countries should underpin exchange rates stability with wider changes in policy — further action in the US to reduce the budget deficit and greater efforts in Japan and West Germany to stimulate demand in their economies.

The Fund is predicting a pick up in growth in the industrialised countries to 2.6 per cent next year from 2.4 per cent in 1987.

It also expects a healthier pattern of growth with domestic demand rising faster than output in Japan and West Germany, and the reverse occuring in the US. Inflation is forecast to remain under control though edging up to 3.4 per cent in 1988 from 3 per cent this year.

WORLD BANK
WASHINGTON 1987

For the non oil producing developing countries, overall the Fund expects a growth rate averaging 5 per cent, but it says that the poorest countries of Sub-Saharan and Africa can expect an increase in output only 2 per cent. That would represent the decline in per capita income for the African nations.

The outstanding debt burden of developing countries, which rose to $1,100bn at the end of 1986, is projected to rise by an additional $97bn in 1987 and $37bn in 1988.

The Fund's concern about the risks facing the world economy centre on its medium term assessment, which, based on current policies and exchange rates, is that the US current account deficit and the parallel surpluses in Japan and West Germany will remain at unsustainable level into the 1990s.

A confidential paper prepared for governments as a background to the Outlook describes a central case for base line scenario. This shows the US current account deficit remaining at $150bn in 1991, with the Japanese and West German surpluses at $70bn and $30bn, respectively.

Deficits of that size would imply a massive build up in the ratio of US net indebtedness to output, from less than 10 per cent now, to 15 per cent in 1991 and 22 per cent in 1995. That latter figure would represent a net debtor position for the US amounting to $1,600bn.

The IMF believes that such a rise in the US debt position would not be accepted by financial markets. Unless governments adopted appropriate measures to curb the imbalances, the markets could force a 15-20 per cent devaluation of the dollar. That in turn would have damaging implications for growth rates, for inflation, and for interest rates.

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Debt initiative shows no grounds for satisfaction, **Stewart Fleming** reports

Verdict on Baker's plans remains 'not proven'

WORK HARD, study and keep out of politics, is the advice offered by Capt James A. Baker in a newspaper article, a copy of which hangs on the wall in the reception room outside US Treasury Secretary James Baker's office.

By studiously avoiding the advice of his grandfather, Mr Baker is recognised today as the most influential politician to occupy the Secretary's office at the Treasury in a generation.

In the past two years, with the advice and usually the support of recentl retired Federal Reserve Board chairman Paul Volcker, he has helped to transform not only the thrust of the Reagan Administration's international economic policy but also the framework within the industrial countries conduct their economic relations.

But today, as Mr Baker takes part in what will be his last annual meetings of the World Bank and the International Monetary Fund as President Reagan's Treasury Secretary, the verdict on the initiatives he launched two years ago to try to correct the huge US trade deficit and ease the Third World debt problem, remains 'not proven."

There is, as a meeting of top policymakers and bankers assembled by the Bretton Woods Committee in Washington concluded on Friday, no grounds for satisfaction concerning the debt initiative. Everybody, bankers, debtors and creditors, know that it is failing.

Official statements to the contrary reflect a mixture of semantics (the "Baker Plan" is so malleable a concept that it can bear almost infinite redefinition without "failing") and an inability to agree on what could replace it.

So far as the international economic policy imbalances among the industrial (and newly industrialising) countries are concerned, the situation is only a little better.

The decline in the dollar since 1985 has been more orderly than most economists imagined possible helping to sustain an upswing which has eased the world's economic problems.

A tenuous stability has set in on the exchange markets since the Louvre accord in February, the US trade deficit has probably stabilised in nominal terms at around $150bn-160bn and it is improving in volume terms. That in turn is helping to sustain US growth.

But the economic policy actions by the industrial countries needed to improve the prospects for the correction of fiscal and current account imbalances are still awaited.

Instead there are signs that the policy priorities of the industrial countries are diverging. In the US, with next year's Presidential election looming, the highest priority for the Reagan Administration and its Republican allies is to sustain economic growth.

Mr James Baker

West Germany and Japan, the key industrial powers in the economic policy debate, want growth too but not at a pace which risks triggering an upsurge in inflation, and that they fear, is what the US is asking from them.

Mr Reagan's decision reluctantly to approve the legislation Congress passed last week to force action on the budget deficit could help reinforce confidence that this year's dramatic improvement in the US budget deficit will not be reversed in 1988 and 1989.

But some on Capitol Hill are warning that the new "budget fix" will not bear close scrutiny and, like its predecessor, the initial Gramm-Rudman-Hollings budget reform law, can too easily be ignored or reversed by Congress.

Signs exist that the policy priorities of the industrial countries are diverging. The US Administration aims to sustain growth. West Germany and Japan fear it is asking from them growth which risks higher inflation.

In addition, it puts off until further into the future the tough choices needed to reduce the deficit sharply. So while it strengthens Mr Baker's hand in the debate with his peers about whose economic policies need to be adjusted in the interests of international economic stability, it is far from clear that it will trigger any fundamental shifts in the judgment by its trading partners that the top priority is a more vigorous US attack on the deficit.

Mr Baker and his admirers, many of whom have held high office in Democratic administrations, can argue with justification that the world economy would probably be in much worse shape without the initiatives the Treasury Secretary launched two years ago.

Faced then with an overvalued dollar, a burgeoning trade deficit and the threat that the US Congress was about to approve protectionist trade legislation, Mr Baker abandoned the indifference to mushrooming international fiscal and trade imbalances which had characterised US international economic diplomacy under his predecessor Mr Donald Regan.

He set in train the procedures which have led in the past two years to an orderly decline in the dollar's value to levels which now have economists divided on the question of whether the US currency has declined far enough to bring about a reduction of the US trade deficit.

Of longer term significance perhaps is the fact that the major industrial countries have also abandoned their faith in freely floating exchange rates adopted in the early 1970s. Instead they are experimenting with attempts to stabilise their exchange rates, while still permitting sizable fluctuations and to sustain this stability through better co-ordination of economic policies.

At the Seoul meetings Mr Baker also launched the so called "Baker Plan" which the Treasury and the Federal Reserve had designed for trying to tackle the Third World debt crisis by emphasising the need for economic growth in developing countries and the provision of funds by official lenders such as the World Bank and the IMF and commercial banks.

Today, however, Mr Baker will not be any more anxious than his President to entertain bold new initiatives to reduce the budget deficit or tackle the debt problem unless forced to do so. He must keep both eyes fixed on his party's electoral platform.

In just over a year's time the Republican Party, its Presidential and Congressional candidates, will once again be facing the voters.

Sometime before then Mr Baker will have left the Treasury to involve himself in those elections. Some who are close to him suggest that he will quit in the spring of next year—April or May. Others speculate that if the campaign of his friend Vice-President George Bush runs into difficulties, Mr Baker could come under pressure to leave earlier.

Meanwhile, his pririty will be be to ensure that the US economy is not struck by turmoil in the financial markets or a recession in the next 14 months. That would hand the Democrats the campaign issue they badly need and Mr Baker has practised politics too long not to know what the likely consequences of that would be.

IMF AND WORLD BANK REPORTS

Reagan backs new budget reform law

BY STEWART FLEMING, US EDITOR, IN WASHINGTON

PRESIDENT RONALD REAGAN announced on Saturday that he intends to sign the new budget reform law approved last week by Congress in an effort to pressure him to negotiate a compromise accord aimed at reducing the Federal budget deficit.

But even before Mr Reagan has put pen to paper some fiscal *experts in Washington are saying* that the new law may do *less to reduce the deficit than* it appears to promise.

In the view *of Mr* John Makin, an economist and budget expert at the American Enterprise Institute, a Washington think tank, the budget fix approved by Congress last week, which Mr Reagan has *decided not to veto, in fact en*sures that further major reductions in the deficit will have to wait until after next year's Presidential elections.

Moreover, citing one provision the legislation—that would *allow Congress to modify auto*matic spending cuts the legislation calls on the President to make if a budget accord is not reached—Mr Makin says, "Con*gress has left itself an out here.* That is why I did not expect the President to sign the bill."

In his regular radio address to the nation on Saturday, Mr Reagan *said of the legislation*, which was attached to a bill *authorising* an *increase in the* Federal debt ceiling: "I have no choice but to sign this bill to guarantee the United States Government's credit." But the *President, heralding a confron*tation on budget priorities, vowed to resist Congressional calls for a tax increase as part of the budget package and threatened to veto domestic spending bills.

It *calls* for a maximum of $239bn in automatic budget cuts for the 1988 fiscal year, which begins in October, if Congress and the White House cannot *agree on deficit reduction steps.* Half the automatic cuts would be *in the military budget.*

The goal would be to reduce the deficit to $144bn in the com*ing fiscal year from the $150*-$160bn expected for 1987. The deficit hit a record $220bn in 1986 and has fallen much more sharply than anticipated in the past year.

US banks are on a particularly fine knife edge over rescheduling, Alex Nicoll writes

Brazil debt plan sets tough challenge

BRAZIL'S proposal for dealing with its $68bn medium and long term debt to banks, though vague and avowedly open for negotiation, presents banks with one of their toughest challenges since the debt crisis began in 1982.

Put badly, a country which has paid them no interest for seven months is asking them for the biggest new loan in the history of the debt crisis.

It also wants a large rescheduling, a sharp reduction in *interest rates* on all the debt and the introduction of bonds which would force banks accepting them to take write offs.

In responding, banks have to weigh their desire to negotiate *towards a resumption of interest* payments and an orderly long term solution against their fear of setting precedents that many other debtors would *immediately* seek to match.

US banks are on a particularly fine knife edge. They want to be seen to be in negotiation with Brazil because US regulators could declare Brazilian loans "value-impaired" late next month, forcing new bank losses. Bankers say they are treating the deadline seriously.

But equally they do not wish to give the *impression* to the *regulators* that they are likely to accept Brazilian proposals which would effectively devalue their loan portfolios.

Bankers are not hiding their distaste for many aspects of Brazil's approach.

President Sarney

Not least among them *is its public negotiating style.* Reporters who staked out Friday's meeting in Washington received exactly the same document as had been handed out to the banks.

What irks the banks most, however, is the attempt *to de*link the banks' proposed financing package from any other arrangements President Jose Sarney's Government might make with *other creditors.*

"Everyone feels strongly that it is too early to veer away from orthodoxy to that degree," said one banker on the advisory committee. *Since* 1982, banks *have made new loans* which went to help debtors finance interest payments to them. Brazil is exposing this uncomfortably by terming the requested $10.4bn new loan as "interest financing."

"Put boldly, a country which has paid no interest for seven months is asking for the biggest new loan in the history of the debt crisis. It also wants a rescheduling and a sharp cut in interest rates on all the debt"

Banks, however, *feel* they should lend new money if they can be sure it will be well spent—that it will not be squandered through poor economic management nor used to fund payments to other creditors. In both these regards, most bankers view an agreement with the IMF as crucial. *It would ensure the introduc*tion and monitoring of an economic programme, and it would also address nearly $2bn which Brazil is due to pay the IMF this year *and* next. *Banks* would not lend money which could be used to finance these payments.

One member of the advisory committee commented: "I'm not sure that saying 'finance my interest and don't bug me on anything else' is the best way to make Brazil bankable."

Brazil's proposal contains other elements which if *accepted*, would provoke *calls* from many other debtors for *similar concessions.* These include the elimination of any spread over money market rates on all the debt, and unspecified *mechanisms* for setting a cap on *interest* rates and for compensating Brazil for any sub*stantial worsening* in its terms of trade.

While bankers see the interest rate demand as an opening negotiating gambit, *they regard* some *other* elements as either unacceptable or too vaguely worded to understand.

Brazil argues that conventional debt strategy *has* foundered. Its new approach, it says, is a blend of the conventional strategy with a "long term approach to the debt problems based on a restructuring linked to the true payment *capacity of the country.*"

The conventional part of the plan comprises a rescheduling of maturities due from 1986 to 1989, and the new loan. This could be made by capitalising interest—a new element. It *would comprise $4.3bn or* 100 per cent of 1987 interest due since February, and $6.1bn to cover 60 per cent of interest due 1988 and 1989.

The part of the plan termed "alternative" by Brazil is a *voluntary* version of its already well known proposal for conversion of debt into long term, low interest bonds.

Bankers are at least encouraged that they are talking to Brazil. "Everything's negotiable, that's a lot more than we've heard for a long time," one advisory committee member said.

The outline is similar to exit bonds included in a package for Argentina earlier this year, but with *provisions* for increasing the yield or accelerating repayment if Brazil's economy performs well. To add incentive, the bonds would be the main vehicle *for converting debt into* equity in Brazilian companies.

Even if they do not like the Brazilian plan, bankers are at least encouraged that they are talking to Brazil. "Everything's negotiable—that's a hell of a lot more than we've heard from them for a long time," said one advisory committee member.

After next Friday's meeting between the banks and Brazil, it will be clearer just how much further the negotiations can proceed at this stage.

Economic growth 'likely to slow in UK'

By Philip Stephens

BRITAIN'S economic growth rate is likely to slow to 2.3 per cent in 1988 after a 3.4 per cent increase in output this year, according to the latest International Monetary Fund forecasts.

The fund also predicts a steady deterioration in Britain's trade position but expects the current account of the balance of payments to show a smaller deficit in 1987, than the £2.5bn forecast by the Treasury in its March budget.

The IMF projections published yesterday in the World Economic Outlook, point to a current account deficit of $2bn (£1.25bn) in 1987, followed by a short fall of $3.5bn (£2.2bn) in 1988.

A growth rate of 2.3 per cent next year would be below the average of 2.6 per cent expected for the industrial countries as a whole, but above the 2 per cent projected for European nations.

Britain's inflation rate, however, is forecast to remain higher than the 3.4 per cent anticipated for the industrial countries as a whole next year. The Fund predicts a *rate of 4.2 per cent in 1987, rising to 4.5 per cent in 1988.*

SOME SIGNS FOR OPTIMISM

G7's note of caution on reform and growth

THE FOLLOWING is the text of the economy issued on Saturday by the Group of Seven leading industrial non-communist nations — the US, Japan, West Germany, France, Britain, Italy and Canada:

The Finance Ministers and Central Bank governors of seven major industrial countries met today. The managing *director of* the ITM (Mr Michel Camdessus) also participated in the meeting. This continues the economic policy co-ordination process agreed by their Heads of State or Government at the 1986 Tokyo Summit and strengthened at the 1987 Venice Summit meetings. The Ministers and Governors are convinced that this process, including the use of economic indicators, pro*vides an important and effec*tive means of promoting a healthy and prosperous world economy and stable monetary system.

The Ministers and Governors reviewed together the events, *policy developments* and *evolu*tion of foreign exchange markets since the Louvre Agreement and the April 6-7 meeting in Washington. They were pleased with the exchange rate stability which has been *achieved* and *which has bene*fited their policies and performance.

In the Louvre Agreement the Ministers and Governors set out the policies which they intended individually to pursue, and undertook to *monitor* them together and as necessary intensify or adapt *them.* They note that some important decisions have been taken in individual countries which were envisaged in the February statement, and *that* generally the evolution of policies has been along the lines intended.

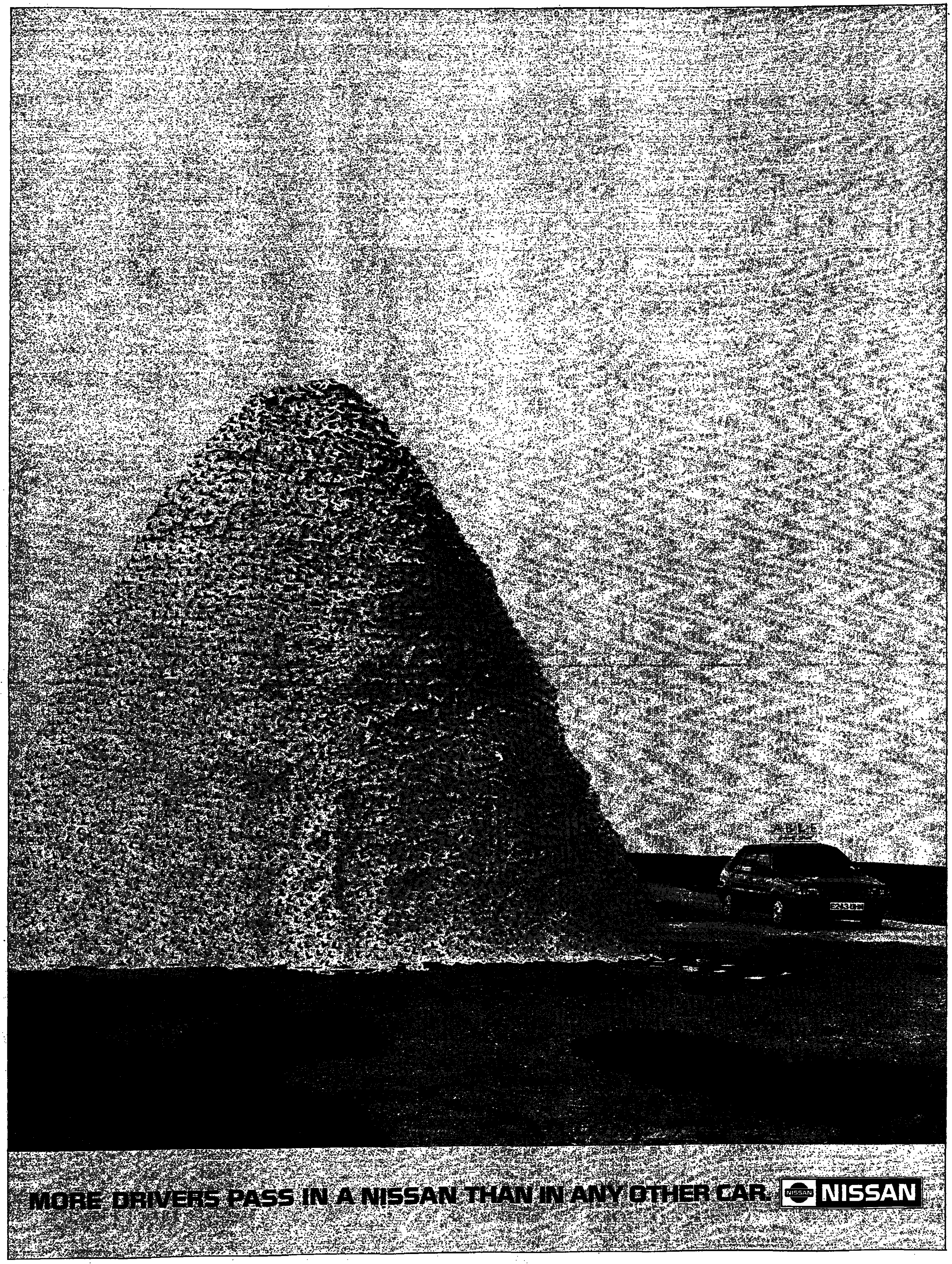
Some important favourable results are beginning to be seen. The substantial reduction in fiscal 1987 in the United States *federal* budget deficit is a very positive step, as is the continued determination in resisting protectionist pressures, and they particularly welcomed the announcement today by the President of the *United States of his decision* to sign legislation which will reinforce progress in reducing the budget deficit. The major programme of additional expenditures and income tax cuts in Japan is being rapidly implemented. In Germany the reductions in income taxes from January 1988 will be greater than previously planned and the legislation for them has already been enacted. There have been reductions in external imbalances in real terms, although they remain high. Growth in domestic demand in surplus countires is picking up, but it is important that it improves further in some countries.

The Ministers and Governors note that the large trade surpluses of some newly industrialised countries continue to be an important factor contri*buting to external* imbalances. They repeat their view expressed on earlier occasions that these economies should reflect their growing importance and responsibilities by reducing trade barriers and pursuing policies that allow their currencies to reflect more fully underlying economic fundamentals.

Ministers and Governors pleased with exchange-rate stability, income tax cuts, and reduction in US deficit—but want more done to reduce deficits

The Ministers and Governors *commit themselves to take* further appropriate actions as necessary to achieve the agreed goals set forth in the Louvre Agreement. They will particularly intensify their efforts to liberalise markets, implement *tax reforms* and pursue other structural changes to strengthen the vitality of their economies, to foster a high rate of sustained non-inflationary growth and to reduce external imbalances. They reaffirmed their determination to fight protectionism and to promote an open world trading system.

The Ministers and Governors reaffirmed their intentions to *carry forward their economic* policy co-ordination efforts. During the coming year the *developments* of their economies will be monitored closely under the strengthened surveillance *arrangements* outlined in the Venice summit.


MORE DRIVERS PASS IN A NISSAN THAN IN ANY OTHER CAR.
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OVERSEAS NEWS

EC states 'have failed to enforce sanctions'

By Quentin Peel in Brussels

A DOSSIER of statistics suggesting that EC member-states have failed to enforce their own trade sanctions against South Africa is to be presented to the Danish government, currently in the chair of the EC Council of Ministers.

The figures show that member-states like the UK and West Germany continued to import iron and steel products from South Africa, 10 months after they agreed to restrict them.

The steel ban agreed in September, 1986, affects only some 40 per cent of the total EC iron and steel imports from South Africa, including items such as pig iron, cast iron, steel plate, billets, slabs, bars and rods. Ferro-alloys, for example, are excluded.

Statistics collected by two Dutch Socialist members of the European Parliament show that UK imports of the banned products still totalled Ecu 9.2m in the first seven months of 1987, compared with Ecu 10.4m in the same period of 1986. West Germany did cut back to Ecu 12.8m worth in the first seven months of this year, compared with Ecu 24.8m in the same period of 1986.

British officials yesterday denied that there was any evidence of UK importers disregarding the ban, suggesting that the continuing imports must be coming in under long-term contracts signed before the trade sanctions were agreed.

Mr Alan Metten, one of the MEPs involved, rejected the suggestion on the grounds that the normal duration of such contracts was only six months.

"The boycott is a joke," he said. "The governments are breaking their own agreement.

Indian troops fire into Tamil mob

INDIAN Army troops opened fire on a Tamil mob setting fire to a bus near Batticaloa in eastern Sri Lanka yesterday, injuring at least three people, police said, AP reports from Colombo.

The Rev Pius Ratnarajah, a Roman Catholic priest in Batticaloa, said the mob was angered by the death of Thileepan Amirthalingam, a Tamil militia leader who died in Jaffna after a 12-day hunger strike.

Portugal and Angola seek closer links

BY PETER WISE IN LISBON

MR JOSE Eduardo dos Santos, the first Angolan president to visit Portugal since independence 12 years ago, arrived in Lisbon yesterday with the aim of mending a potentially rich relationship thwarted by the legacy of five centuries of colonialism.

Portugal's dealings with Angola are the most strained of all its ties with the five former African colonies, which were pitched into independence in 1975 after young Portuguese army captains, weary of long colonial wars, toppled the rightist regime in Lisbon.

Troubled by the activities of Lisbon-based spokesmen for the Angolan rebel movement UNITA, by the resentment of Portuguese settlers who fled Angola, and by the hot-and-cold attitudes of successive Lisbon governments, the two countries have failed to dispel the tensions that remain a barrier to economic co-operation.

After losing important Angolan contracts to European competitors, Portugal now feels that the expansion of its own economy and the political stability ensured by the Social Democrats' solid parliamentary majority will at last enable the country to take full advantage of its African connections.

Mr dos Santos says the object of his visit is to make up for lost time in healing the wounds inflicted by history and to nurture a special relationship with the Portuguese, whose shared language and familiarity with the Angolan economy make them ideal development partners.

"We share a common frontier of history and culture," Mr Venancio de Moura, Angola's deputy foreign minister told reporters. "That is why there is potential for an especially close friendship, but also why we react so strongly to negative behavior" — an allusion to UNITA propaganda.

This emotional undercurrent is dominating the five-day state visit. Many share in the reconciliation, symbolized by the embraces of the two presidents. Others participate in the demonstrations against Angola's Marxist government and the presence in Angola of an estimated 37,000 Cuban soldiers.

Mr Jose Eduardo dos Santos

Mr dos Santos is focusing much of his attention on a series of meetings with businessmen, particularly in the industrial north. He is expected to tell them of planned changes in Angola's foreign investment laws, offering improved incentives for export-oriented projects and better conditions for repatriating profits.

The president's visit to the Sines oil refinery complex on the southern Atlantic coast could prove crucial to proposals for Angola to lease oil storage and refinery facilities. Such a development could save the massive, underused complex from being the white elephant it has been since its construction in the early 1970s.

An extensive oil trade between Portugal, which imports 80 per cent of its energy, and Angola, whose oil exports account for 90 per cent of foreign earnings, seems logical but it will not be until later this year that the first shipment of Angolan oil will arrive in Portugal under a contract worth $57m a year. Most of the payment will be made in the form of bank credits to enable Luanda to pay Portuguese companies working in Angola.

Talks are also expected in Lisbon on a rescheduling of the Portuguese share of Angola's $4bn foreign debt, that is being studied in its entirety by Portuguese specialists working for auditors Coopers and Lybrand International.

Sweden-Denmark tunnel plan in trouble

By Kevin Done in Stockholm

SWEDISH and Danish government plans to build a SKr9.3bn ($1.45bn) road and rail link between the two countries have been dealt a blow by the party congress of Sweden's ruling Social Democrats, meeting in Stockholm this week.

The scheme, one of Europe's most ambitious communications projects, has run into stiff opposition from environmental activists among the Social Democrats, who want a single rail tunnel.

Rather than risk a damaging split only a year before the general election, the party leadership has been forced to back down and withdraw a motion backing the construction of a combined road and rail bridge from Malmö in southern Sweden to Copenhagen.

The scheme would have removed the final missing link in the transport infrastructure, planned for decades, to join Scandinavia to continental Europe.

In a compromise move, the issue of a permanent link across the Oresund, the busy straits separating Sweden from the Danish island of Zealand, is to be referred back to a comprehensive inquiry within the whole Swedish labour movement.

The inquiry is expected to delay a decision on the project well beyond the next election, due in September 1988. The Social Democrats have used this procedure previously when sensitive major issues – such as the development of nuclear weapons, membership of the European Community or the future of nuclear power – have threatened party unity.

Similar in magnitude to the Channel tunnel between the UK and France, the Oresund link has been under discussion for more than 100 years, but it has been bedevilled by political disagreements both domestically and between Stockholm and Copenhagen.

In August the scheme finally appeared to have received a green light, when a joint Swedish/Danish working party proposed the combined road and rail bridge solution, and the Transport Ministers of both countries expressed optimism that an agreement could now be reached.

UK NEWS

BOC forms joint venture with Chinese group

BY DAVID CHURCHILL

BOC, the British group of gas and health care companies, has secured an important foothold in mainland China with the formation of a joint venture chemicals company in Shanghai.

The deal, announced in London at the weekend took two years to negotiate and was won in the face of strong competition from US chemical companies.

BOC becomes the first foreign company to establish a major joint venture in the Chinese chemicals industry. The new company will operate China's first liquefied gas plant.

The venture has been concluded between BOC and Wusong Chemical Works, based in Shanghai, to form Shanghai BOC. BOC's initial investment is only £4.3m, although total assets in the new company are understood to be worth about £20m.

Extra funding has come from the Chinese authorities, especially the Shanghai Chemical Bureau.

Mr Richard Giordano, BOC's chairman, said at the weekend: "We are delighted with this agreement. It is the first major joint venture between a chemical company serving mainland China and any foreign company, and will provide a very solid foundation for future growth not only of BOC's gases business, but also for markets for BOC health care products and our other specialised technologies."

Shanghai BOC will continue the existing industrial gas business of Wusong Chemical Works and immediately expand production facilities. It will do this by building new facilities for special gas production as well as installing a 110 tonnes a day gas liquefier, to be built in the UK by BOC Cryoplants.

BOC will also provide the new venture with its expertise to improve production, distribution, marketing and further technological developments of new markets.

The deal still requires final approval from the Shanghai Municipal Government in November, although this is expected to be a formality.

EETPU loses vote at Wapping plant

BY CHARLES LEADBEATER, LABOUR STAFF

PRODUCTION staff at the News International's Wapping printing plant in east London, have voted by a significant majority to seek a union other than the the electricians' union, the EETPU, to represent them.

The vote will strengthen the hand of the print unions Sogat and the National Graphical Association, which have been seeking recognition at Wapping since News International in January 1986 transferred to the plant printing of the Sun, News of the World, Times and Sunday Times newspapers.

The print unions have consistently accused the EETPU of colluding with the company's plan to set up the Wapping plant, which came into production after the sacking of 5,500 print workers, mainly members of Sogat and the NGA, from the company's former central London plants.

The transfer provoked a bitter year long dispute between the company and the print unions and widespread criticism of the EETPU from union leaders. The EETPU is the largest union among the 1,007 production staff at the plant, but the print unions have always maintained that they should represent the workforce.

In a ballot held over the last fortnight 321 workers voted to seek another union to represent them. Of the remaining workers 239 voted for self representation through the Salaried Staff Council and 140 voted to support a recognition agreement with the EETPU.

Benlox makes £2bn bid for Storehouse

BY LUCY KELLAWAY

BENLOX HOLDINGS, a small engineering and investment dealing group worth about £45m, yesterday launched a £2bn all share bid for Storehouse, the retailing group headed by Sir Terence Conran.

Benlox, 21.7 per cent owned by the Egyptian financier, Dr Ashwan Marwan, said yesterday that if successful, it would "demerge" the group into a number of specialist retail stores.

Sir Terence yesterday responded angrily to the approach which he said would be put to the Storehouse board at a meeting today. "The bid is opportunistic financial engineering at its worst...It is so disruptive of our business in general and for our employees in particular", he said.

The bid is being made by Iffincorp, Earl, a small corporate finance company run by Mr Peter Earl, a director of Benlox, who last year launched unsuccessful "demerger" bids for Extel, the business information group, and London and Northern, the construction and energy company.

The bid comes three days after Mountleigh, the property company, announced its withdrawal from a six week battle to acquire Storehouse, after its £1.8bn bid had been rejected by the board.

Benlox said yesterday Storehouse would be worth more to shareholders split up than as a whole. "The company has turned into a bit of a Frankenstein - it is too large and unwieldy. The companies are great businesses independently, but too large put together", Mr Earl said.

Mr Robert Maxwell, who supported Mr Earl last year in his bid for Extel, announced last week that he had increased his stake in Storehouse to 2.9 per cent. Mr Earl said he had not consulted Mr Maxwell about the bid, but he hoped to get his support.

The terms of the deal are 11 Benlox shares for every two Storehouse shares, which at Friday's closing price values Storehouse shares at 501p, compared to 445p offered by Mountleigh. There is no cash alternative.

Amstrad to announce Spanish purchase

By David Thomas

AMSTRAD, the fast-growing consumer electronics company, is today likely to announce its largest acquisition yet by buying Indescomp, the Madrid-based distribution company which has helped it dominate the personal computer market in Spain.

The acquisition fits into Amstrad's strategy of building up its overseas operations, where it is increasingly looking for its fastest growth.

The company now claims more than half of the Spanish market for home computers and low-cost business personal computers. Amstrad says its audio equipment and video recorders, both of which it launched there within the past year, are also selling well.

Amstrad's sales in Spain in 1985-86 were £32.3m, 10.6 per cent of its turnover. Observers believe that its 1986-87 figures, due to be released tomorrow, will show its sales in Spain to have almost doubled.

Analysts are expecting pre-tax profits for 1986-87 of £135m-£140m, up from £75.2m last year.

The company would not comment on the acquisition in advance of the announcement, but Mr Alan Sugar, Amstrad's chairman, will be in Spain today to clinch the deal.

Indescomp's main shareholder is Mr Jose Luis Dominguez, 35. Mr Dominguez started selling Amstrad machines in Spain in 1984, and has made himself a millionaire by selling the company's products. He is expected to stay with the company in a senior position.

Nick Garnett looks at a small manufacturer's trade war

Tiny digger's big success

IF YOU want an example of an idea developed in the UK and exploited by the Japanese, through fair means and foul some observers say, look no further than the mini-excavator.

These tiny machines, weighing between one and six tonnes, are easily the fastest growing part of the construction machinery market in the UK.

They and their larger excavator brothers have also been taking market share across the world from other types of machinery.

The Japanese now have a virtual stranglehold on production of the mini-excavator but the concept was born in the UK, which has been put on the sidelines as a producer.

In 1981 just 238 mini machines were sold in the UK, but by last year sales had risen to 1,193 units, a dramatic development in the construction machinery market which showed no great growth in overall unit sales over that period. For some types of much bigger machinery, such as rigid dump trucks and crawler loaders, demand has fallen.

However, the UK is as nothing compared to the Japanese market. The Japanese hardly knew anything about this type of machine 20 years ago, but demand there now runs to about 30,000 mini-excavators a year.

A tiny company in Bourne, Lincolnshire, called Richard Smalley Engineering, claims to have invented the mini-excavator concept and it began producing the machine in 1963.

A row with the Austin car company - later subsumed into the Rover Group - prevented it from using the word "mini", but the Smalley 5, as the eight horse power machine was called, was a success.

In the middle 1960s, Smalley was selling 100 of these units a year in Japan. By 1967, however, the Japanese had decided to start making the mini-excavator themselves and imposed a 40 per cent import tariff on Smalley equipment to help them do it.

By 1970 the Japanese had their own mini excavators on the market, and they have never looked back. Characteristically, the Japanese engineers arrived with an added idea. Their machines were on tracks while the Smalley was a "walking" machine, pulled along by the front bucket.

In the UK last year Kubota took 50 per cent of the market, followed by Komatsu and Nissan, each with 13 per cent, ahead of Chieftain, another Japanese-made machine sold by equipment distributors Blackwood Hodge.

The Smalley company, though, lives on. In 1982 the recession in construction equipment forced it into receivership, but it was resurrected as Smalley Excavators, run by Mr Richard Smalley and his wife, Ann.

The company has kept up its remarkable tradition of engineering innovation.

Its products include gravediggers, which are a type of mini-excavator on wheels, pontoon-mounted excavators and a special low ground pressure machine for water channel digging used in mosquito eradication.

The company is in profit and hopes to achieve a turnover of £2m next year. Smalley employs 20 people and sold 60 of all types of machines last year, including mini-excavators. It still, however, has difficulty with the Japanese.

A number of UK companies, including Smalley, met officials of the British construction equipment federation recently as part of a campaign to obtain an EC investigation of Japanese excavator equipment pricing.

To a little company like Smalley it appears that the Japanese are not satisfied with having less than 100 per cent of the UK market for some machines.

"We think the Japanese have been using unfair tactics to sell here," Mrs Smalley says. "They are now trying to pinch our gravedigging market."

Some Japanese producers have been offering to undercut Smalley by £1,000 for some machines. At an equipment exhibition earlier this month, the Japanese demonstrated their strength, with Kubota putting 184 construction and agricultural machines on display.

UK to sign $4m SDI contracts

BY PETER MARSH

BRITAIN is about to sign a further $4m worth of contracts under the US Strategic Defence Initiative programme, also known as Star Wars. It will bring the total level of contracts awarded to Britain under the programme to $44m, a figure that a UK Defence Ministry official admitted over the weekend was disappointing.

The further work is mainly in the form of two contracts due to be awarded to the Defence Ministry in the next week from the US SDI Organisation, the Pentagon body in charge of the programme.

The $4m package - to be shared between work on lasers and techniques to protect space-borne equipment from enemy attacks - will be shared out among UK industry in a programme co-ordinated by the Royal Signals and Radar Establishment, a Defence Ministry research centre.

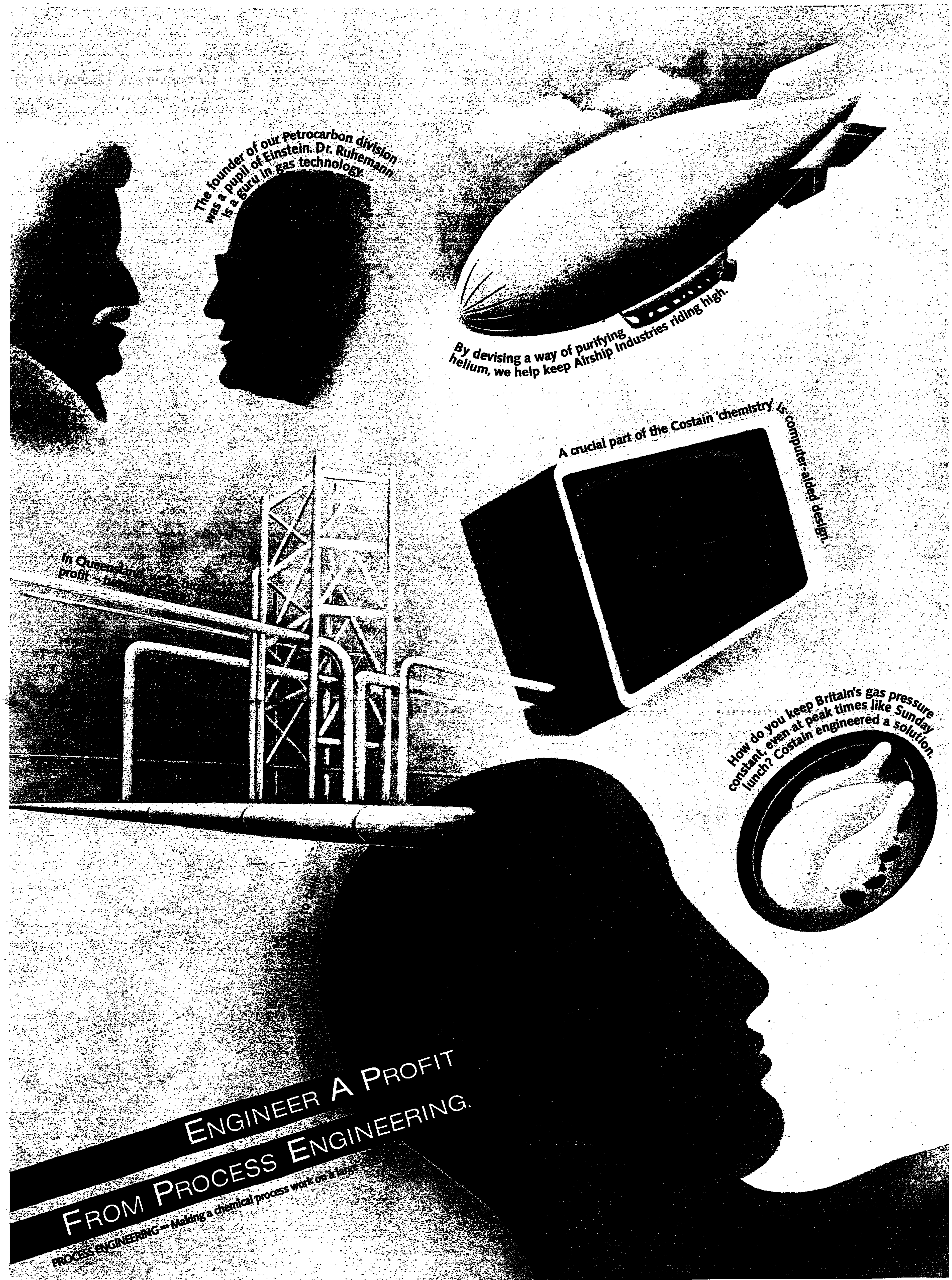
Companies such as Ferranti, Plessey and Marconi, part of General Electric Company, are expected to benefit from the work.

Under an agreement between the UK and US in December 1985, Britain is collaborating on the Star Wars programme, which is aimed at devising techniques to defend the West from Soviet missiles.

So far - despite the award of SDI contracts worth about $7bn to US companies and hopes that UK work from the programme would total hundreds of millions of dollars a year - UK companies have gained only a minor toehold in the project.

The Defence Ministry said in March that it hoped the sum of contracts gained by Britain would reach $100m by the end of the year.

According to ministry official yesterday, the build-up of contracts had been slower than expected. This was connected with the smaller amounts of cash awarded to the programme as a whole by Congress.


The founder of our Petrocarbon division was a pupil of Einstein. Dr. Ruhemann is a guru in gas technology.
By devising a way of purifying helium, we help keep Airship Industries riding high.
A crucial part of the Costain 'chemistry' is computer-aided design.
How do you keep Britain's gas pressure constant, even at peak times like Sunday lunch? Costain engineered a solution.
ENGINEER A PROFIT
FROM PROCESS ENGINEERING.

Employment in engineering 'to fall below 2m'

BY NICK GARNETT

EMPLOYMENT IN the UK's engineering-related industries, which was more than 3m in 1980, looks set to fall below 2m within the next two years.

The latest half yearly economic trends report from the Engineering Employers Federation forecasts that over the next 12 months engineering employment will fall by 45,000 to 2.02m, compared with a drop of 156,000 *during the previous two years.*

The trend would push total engineering employment below 2m the following year. The federation's definition of engineering includes vehicle building, electronics and computers, office equipment, aerospace and *mechanical engineering.*

Engineering output volume* is forecast to rise by almost 6 per cent in the 18 months to the autumn of next year. Car building and electronics-related sectors will mainly account for this growth, the report says.

Total cash sales for engineering industries this year, when corrected for inflation, are expected *to* be just 3 per cent above the level of 1980.

In electrical engineering and aeropsace, inflation-adjusted sales this year will be more than 20 per cent above those of 1980. Sales in mechanical engineering and metal goods will be about 15 per cent below.

Average productivity levels, measured as output volume per *person employed, are estimated* to be 56 per cent higher in the first half of this year, compared with 1980. The federation says productivity growth has been greatest in electrical engineering and least in mechanical engineering.

**Volume of output. Gross value* added at constant 1980 prices. Sales are deflated to 1980 prices, using an appropriate price index. Non-capital purchases are also deflated to 1980 prices and subtracted from sales at 1980 prices. Adjust*ments are made for stocks and* work in progress.

Privatisation worries electrical plant makers

BY MAURICE SAMUELSON

MAKERS OF heavy electrical plant are worried that an expected recovery in orders for power stations and other equipment will be interrupted by prolonged uncertainty pending privatisation of the electricity industry.

Their fears emerge in letters between Sir William Barlow, president of BEAMA, the plant makers' umbrella group, and Sir Philip Jones, Electricity *Council chairman, who pledged* Sir William's point would be "fully taken on board."

Sir William, saying that deliberations on privatisation could last three years, wrote that equipment suppliers "would not like to see any change in the ordering policy of the electricity supply industry in respect of capital equipment."

He said orders from area boards and the Central Electricity Generating Board had been improving and hoped this would continue.

He went on: "Any unnatural interruptions in the ordering pattern would give the electrical manufacturing industry great problems and would have an immediate effect on the employment prospects within the industry. In other words, we would not like to think that the privatisation process will cause any hiccups."

Sir Philip, replying, said area boards and the Electricity Council would take on board the makers' concerns.

Other privatisation questions will be aired at a conference in *London next month organised* by the National Electricity Consumers Council. Speakers are expected to seek assurances on the degree of competition to be introduced into electricity supply.

They will include representatives of the newly formed Association of Independent Electricity Producers. It fears some monopoly features of electricity utilities would survive transition to the private sector. It plans to work with the Energy Intensive Users Group, which represents industries making similar complaints about the marketing policies of British Gas.

Managers' pay up by 7.6%, says survey

By Michael Skapinker

TOTAL REMUNERATION of British managers has increased by 7.6 per cent over the past year, largely as a result of the increased demand for competent staff, according to a report out today.

The report, by Reward Regional Surveys, says that managers' basic pay, without bonuses, increased by 7.1 per cent in the year to September 1987.

It says a similar increase can be expected over the coming year because of the measures being taken by many companies to stop their trained staff being poached.

The report found that managers in the West Midlands, the north-west of England and in Scotland find it easier to buy houses than they did in 1984. For the average manager in Scotland, the cost of a three-bedroom detached house is equivalent to 3.4 years of pay, compared with 3.8 years in 1984.

In London, by contrast, the average manager requires 8.4 years' salary to pay cash for a three-bedroom house, compared with 5.2 years in 1984. A manager in the south-east, outside London, needs 6.2 years' pay compared with 5.1 years in 1984.

The report says that about 25 per cent of UK managers receive a bonus over and above base salary, compared with 23 per cent a year ago.

That is the result of companies moving away from bonus schemes and towards a system *of base pay increases.*

The report is based on a survey of managers, other than directors, in more than 600 UK companies.

Reward - Salary and Living Cost Report, September 1987. Available from Reward Regional Surveys, Reward House, 1 Mill Street, Stone, Staffordshire ST15 8BA. £95.

Counties to lobby for east coast motorway

*EIGHT COUNTIES are to organ*ise a campaign for the creation of an east coast motorway.

On the initiative of Humberside county council a working party drawn from Cleveland, Durham, North Yorkshire, Lincolnshire, Cambridgeshire, Norfolk and Suffolk met in June to plan the move. A seminar and exhibition will take place in 1988 to publicise the concept.

Peter Marsh looks at the changing fortunes of a leading domestic appliance manufacturer

Swan warms to Far Eastern toast technology

EARLY NEXT month the flow of industrial technology between Britain and Hong Kong - which for most of the post-war *period has been in the direction* of the Far East - will slip for a time into reverse gear.

The occasion will be the start-up in Birmingham of the first toaster production line run by Swan Housewares, a leading UK kitchen goods manufacturer. Swan admits that it has learned about toaster technology from the island colony - where up to now all Swan's devices of this sort have been made.

For Swan, which is owned by BSR, the electronics group, the event will mark an important step in a series of significant changes over the past two years to boost competitiveness.

The company, which was in a poor way financially in the early 1980s, made a clean break two years ago. It cut 600 jobs, nearly half its workforce, and brought in new top management.

Since then, Swan's fortunes have improved. Employment at its two factories in the Birmingham area has crept up to just over 900, including 40 workers recently taken on to run the toaster production line.

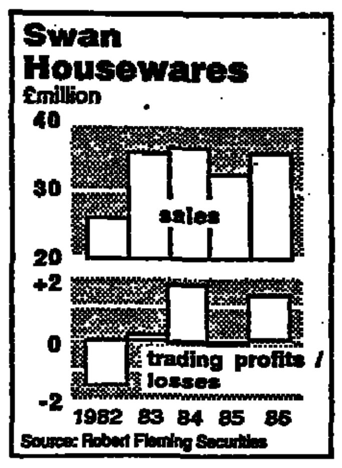
After a financial loss in 1985, the company is on course to make a profit of about £2.5m this year on sales of £43m - of which toasters account for about £5m with the rest taken up by sales of kettles, pots and pans and other electrical hardware such as *deep-fat fryers.*

BSR plans to float Swan on the stock exchange, probably next year, in the process retaining what is likely to be a minority stake. Analysts believe the floated company would have a capitalisation of about £30m.

Hiving off Swan would mark the end of BSR's attempts to diversify into domestic appliances, a move which it made in the 1970s with the purchase of Bulpitts, Judge and Goblin, three long-standing Midlands companies later put together under the Swan name.

BSR, which moved into this area as part of a plan to reduce dependence on its main business of record changers, later admitted that the plan had gone awry. The company had difficulty fitting in the three domestic goods businesses, which during the 1970s employed between them several thousand people, with its other interests - which include communications and computer products and hi-fi equipment.

Swan has sold toasters - an area in which it is the UK market leader, accounting for about a fifth of total annual toaster sales of about £30m - for the past four years.



Source: Robert Fleming Securities

All these items, which Swan sells in a business in which its main competitors include Morphy Richards, Tefal and Russell Hobbs Tower, have been shipped in from Hong Kong, from a company called GEW. The island colony is also the site of BSR's head office.

Mr John Sparks, Swan's engineering director, acknowledges that his company has picked up many ideas about toaster production from GEW. He says: "We built up a lot of experience and knowledge about toasters. Finally we realised we could make them ourselves in Birmingham."

Under Swan's plans, the company will start production in the UK at the rate of a few thousand toasters a week, building up to 10,000 a week by the end of the year. Swan will sell the Birmingham-built devices in addition to the Hong Kong models, which the company intends to continue to import at the rate of about 500,000 a year.

Mr Sparks claims with pride that the new toaster, which was designed by Swan's engineers and retail for about £25, is the first in which it will be possible to view the toast without interrupting the cooking cycle.

This stems from a special feature which permits the toaster operator to lever up the bread to inspect it without causing the heating element to switch off.

Mr Sparks has been responsible for a sweeping reorganisation of the company's factories, introducing ideas in quality control of the kind that are standard in areas like the motor industry but which are infrequently practised in domestic appliance manufacturing.

Swan is bullish about prospects for its various business areas. In kettles - an area in which Swan is among Britain's top three producers, the others being D.H. Haden and Russell Hobbs Tower - the company plans to step up exports to continental Europe.

Mr John Brougham, a blunt-speaking BSR executive who took over as Swan's chairman in 1985, says the UK kettle industry has in the past neglected the possibilities of selling to countries like France and West Germany, where use of the items is extremely low.

The company is dropping hints about starting up a UK production line in microwave ovens. Up to now, under an agreement with Daewoo of South Korea, all Swan's microwave ovens, which account for about £5m a year, are made overseas.

In a further indication of expansion, Swan is in the process of taking over a privately held Italian producer of kitchen goods called Girmi. As a result of the purchase, the cost of which has still to be announced, Swan will sell Girmi items like food-processors, ice-cream makers and blenders in the UK.

The company has particularly high hopes for an Italian-made fish steamer, which it thinks will be popular with Britain's health-concious yuppie classes. The steamers will make a pleasant contrast to Swan's automatic teasmades, a traditional product which Bulpitts had made for decades, and which are sold largely as retirement presents.

Royal Life campaign 'not misleading'

BY ERIC SHORT

INVESTORS APPLYING for Royal Life's unit trust offer are not being misled by the 'prospectus' style advertisements and marketing campaign.

That conclusion, reached in an independent survey, rebuts widespread criticism that Royal Life's marketing campaign is conveying a misleading impression to investors regarding the immediate benefits of unit trust investment.

Royal Life Fund Management, the unit trust arm of Royal Life, a member of Royal Insurance Group, is spending £5.9m prom*oting three unit trusts. During* September the company has been continuously advertising the trusts with the aim of selling at least £300m of units to a wide investing public.

The campaign, entitled The Royal Event, has adopted an innovative approach designed by Moorgate Group, a financial marketing specialist.

It is aimed not only at existing investors holding the unit trusts, but other investors who had not previously invested this way.

To achieve that, the campaign has adopted the style and format of a privatisation issue, with a prospectus setting out details of the trust on offer and describing in detailed terms the benefits of unit trust investment.

The approach has been attacked from several quarters as conveying to the public the impression that unit trusts can provide large immediate investment returns in line with those *seen from the various privatisa*tion issues. The critics feel the public is not being made aware that unit trusts are a much more long-term investment.

Some critics have gone even further and claimed that the advertisements would contravene the rules of marketing being laid down under the financial services legislation. The Securities and Investments Board is beleived to be concerned about certain aspects of the campaign.

Royal Life Fund managers have reacted to this criticism by employing Audience Selection to carry out an independent survey of investors who had applied for both the Royal Life and a BP prospectus. This survey showed that 38 per cent of those interviewed found the Royal a more attractive investment while 36 per cent favoured BP.

When the survey asked for the attractions of the campaign, 30 per cent referred to its safe and long-term investment appeal,19 per cent wanted to make their money work for them and 16 per cent were attracted to unit trusts.

Further analysis showed that 62 per cent of those favouring Royal said their choice had been made because unit trusts offered a wider and better choice of investments while 14 per cent were attracted to the long-term investment potential.

By comparison, 50 per cent of those who preferred BP's share offer expected to make a quick return and instant profit with only 15 per cent attracted by the long-term prospects.

Mr Peter Baines, general manager of Royal Life Fund Management, said: "The survey shows that the Royal Event is *seen as a medium- to long-term* investment. In addition, respondents see a distinct difference between the Royal Event and privatisations."

The survey also showed more than half the applicants for a Royal prospectus did not hold any unit trusts This indicates that the campaign is fulfilling one of its objectives of reaching a wider investment public.

Royal Life Fund Managers claim applications are running at 10 per cent to 15 per cent above *targetted* numbers. *It* expects comfortably to exceed the £300m target when the offer closes on Wenesday evening.

Schools should run themselves, academic says

A RIGHT-WING think tank today urges the Government to give state schools complete control of their own affairs, from buying books to hiring and firing teachers.

The Institute of Economic Affairs, in a booklet written by Mr Brian Caldwell, an Australian academic, says that government plans to give school governors control of a large part of their school's budget should be seen as a first step to complete decentralisation.

Mr Caldwell, senior lecturer *in education administration* at the University of Tasmania, says that far from reducing head teachers to mere managers the plan would boost their role as educational leaders.

He adds that teachers would be better motivated and parents could share in school policy-making if each school were given responsibility for running itself.

Insider trading charges laid against 7 in Quebec

BY DAVID OWEN IN TORONTO

THE QUEBEC Securities Commission has laid charges against seven individuals, including Mr Peter Blaikie, former Federal Conservative Party president, *linking them with insider trading in the shares of* Memotec Data, a small Montreal based data communications firm.

The seven are charged with using information before it was made public concerning Memotec's successful C$488m bid in February for government owned Teleglobe Canada - the company that handles all Canadian overseas telephone calls.

Charged along with Mr Blaikie were three Memotec directors, two Montreal residents and a fellow senior partner at the Heenan Blaikie law firm. Heenan Blaikie helped to prepare Memotec's successful bid for Teleglobe.

The charges, which involve *activities occuring between November 1986 and January 1987,* amount to a penal offence under *Quebec securities law.* They carry a maximum fine of C$1m and up to two years in jail. It is the first time that the QSC has attempted to prosecute under the insider trading sections of the province's securities Act.

An associate of Mr Blaikie, who bought 1,000 Memotec shares in mid January at C$10.50 per share, said that he felt the QSC was mistaken in its contention. "We are satisfied that there is no substance to the charge," he added, maintaining that the shares were purchased by the trustee for Mr Blaikie's retirement savings account as the result of a decision taken well in advance of the processing date.

While Memotec shares are traded in both Montreal and Toronto, QSC officials state that most of the questionable trading uncovered so far in the course of their seven months investigation was conducted at the Montreal Stock Exchange.

The week preceding the government's announcement that Memotec had outbid five other would-be Teleglobe suitors was marked by extremely heavy trading in Memotec stock.

The defendants are scheduled to make a preliminary appearance before a Montreal judge on November 18.

Italian business attacks politicians

By John Wyles in Rome

SENIOR Italian industrialists, led by Mr Cesare Romiti, managing director of Fiat, appeared deeply disenchanted with the country's politicians at the weekend, alleging an anti-capitalist revival among Catholics and marxists.

Amid a growing public debate about the need for legal curbs on the growth of Fiat and other large corporations, Mr Romiti took to the platform of a young businessmen's conference in Capri to warn that Fiat would fight "the hardest possible" campaign against any attempt to draw up a "vengeful" anti-trust law.

Referring to what he called "anti-capitalist vomit", he said there was "a Catholic strain which has always regarded profit as a sort of sin, while the marxist left has not been able to *stomach the fact that the country's progress in the last two* years has been led by the corpo*rate sector.*"

This tough language from the country's largest company partly reflects general business disappointment with the contents of the government's 1988 budget proposal, which would push up corporate tax bills and only slightly trim employers' welfare contributions.

Mr Carlo Patrucco, vice-president of Confindustria, the Italian industrialists' federation, claimed previously that the country's politicians "were frightened of the independence which companies have acquired because this reduces the powers of intermediation which they have always enjoyed."

Mr Romiti presented the current row with Iri, the giant state holding group, over Fiat's refusal to accept Mrs Marisa Bellisario as Iri's nominee to the man*aging directorship of the* proposed joint venture between Fiat's Telettra and the public tecommunication company, *It*altel, as a necessary demonstration of determination to confront the state over the improper use of political power.

Fiat has said it has nothing against Mrs Bellisario personal*ly, but implies that Socialist* Party pressure for her nomination led to an unaceptable distortion of agreed procedures for establishing the management.

The Fiat manager conceded that an anti-trust law could be worthwhile to deal with monopolies.

Vienna arms talks progress expected

By Judy Dempsey in Vienna

NATO and the Warsaw Pact countries resume another round of informal negotiations in Vienna today aimed at giving a fresh impetus to *cuts in conventional forces in Europe.*

If these negotiations are given a *mandate, they could supersede* the 13 year-old deadlocked Mutual and Balanced Force Reduction Talks (MBFR).

The talks, referred to as the "23," have been held informally in Vienna since February. They are taking place within the framework of the Helsinki follow-up review meeting of the Conference on Security and Co-operation in Europe (CSCE) which, except for Albania, involves all the countries of Eastern and Western Europe, the Soviet Union, Canada and the US.

Diplomats are "cautiously optimistic" that today's talks will lead to progress.

The more optimistic air is also due to the fact that both sides have put forward proposals as to what the talks should focus on. In June, the Warsaw Pact tabled a draft plan which included a suggestion that short short-range nuclear weapons and some tactical aviation systems should be covered. Nato, which opposes this, presented a draft framework on "conventional stability" in July.

Taipei reforms snag for Peking

BY ROBERT THOMSON IN PEKING

THE unprecedented visit to *China of two Taiwanese* journalists, who returned home yesterday, has forced the Chinese government to focus attention on the rapid change taking place on the nationalist-held island that it regards as a province.

China, which is attempting to lure Taiwan back to the fold, has officially ignored the recent *lifting of martial law and easing* of foreign exchange restrictions, and so was taken aback by the sudden appearance of the two journalists, who visited four cities during their 13 days on the mainland.

On the one hand, Peking welcomed the journalists as a sign of increasing contact with Taiwan, but officials here could only be dismayed by the discouraging reports of China's backwardness, blandness and police control that appeared in the journalists' newspaper, the Independent Evening Post.

The Taiwanese reforms have unsettled Peking because they are quickly changing the terms of reference of a relationship that Communist Party officials presumed would remain static in the short-term.

Peking is also concerned by the rise of a political opposition party, the Democratic Progressive Party, that has "self-determination" for Taiwan as a key policy. *Elderly Communist* leaders have much in common with elderly nationalist leaders, including a desire for "one China," though on different terms, but the new breed of Taiwanese politician with an eye on genuine independence has peking worried.

The campaign to reunify Taiwan with the mainland *gathered strength following the* successful negotiations for the handing back of Hong Kong and Macau.

AP adds from Taipei: The two journalists face a possible three-year prison term, the Taiwain government said yesterday. The Government Information Office alleged that they had filed false applications for overseas news reporting and would face criminal charges in Taipei District Court.

Lee Yung-der and Hsu Lu, the first reporters to openly defy a 38-year-old ban on travel to the Chinese mainland, visited Beijing and southern China, filing reports widely read by Taiwanese readers.

The Nationalist government lost a civil war to the Communists in 1949 and fled from the Chinese mainland to the island of Taiwan with about 2m supporters, many of whom left friends and relatives behind.

Cairo metro buries its problems

BY TONY WALKER IN CAIRO

It may have been one of the most complicated construction jobs ever undertaken, but yesterday difficulties were temporarily forgotten as the leaders of Egypt and France declared open in Cairo the Arab world's first underground rail system.

President Hosni Mubarak, with Prime Minister Jacques Chirac looking on, cut a blue ribbon to inaugurate the metro. The opening ceremony took place at a station named after the late Egyptian President Anwar Sadat beneath Cairo's main Tahrir square.

French engineers encountered huge problems in their efforts to construct a metro beneath a decaying city without detailed maps of underground water pipes, communications cables and sewage systems. Their task was not helped by the fact that Cairo is built on a swamp with the water table close to the surface.

France is providing FFr610m ($60m) in soft loans and Coface-backed credits. This will cover two-thirds of the cost of the two-stage project, begun in 1982.

The first stage joins a 4.5km sub-surface line with an existing rail system to Helwan, an industrial area in the south of the city.

A second phase, connecting the metre with a line to the north, will be completed late next year.

The new system, which includes six subway stations, links up a 42km rail network to help ease congestion in overcrowded Cairo.

Contractors are Interinfra-Arabco, combining 17 French and two Egyptian companies led by Arab contractors. Consultant engineers are RATP of France aided by Arab consulting engineers.

The project is about 12 months behind schedule. Cost overruns are the subject of a dispute between the Egyptian government and French companies. These companies claim that government-imposed delays, mainly through lack of coordination between various instrumentalities, are responsible for the job not being finished on time.

There were also frequent stoppages because of difficulties in the tunnelling phase. Burst water pipes and severed cables were just two of the more familiar problems.

The French, however, are for the moment trying to shrug off the difficulties. "For us," said a French official, "These things belong to the past. Everyday, there's a new problem, but that's nothing new."

Nakasone pledges support on Kampuchea

BY PETER UNGPHAKORN IN BANGKOK

Mr Yasuhiro Nakasone, the Prime Minister of Japan, yesterday ended a three-day visit to Thailand pledging support for efforts by the Association of South-East Asian Nations (Asean) to solve the conflict in Kampuchea.

Mr Nakasone echoed Asean's call for the withdrawal of Vietnamese troops but was careful not to commit Japan to proposed *"cocktail party" talks in* which the warring Kampuchean and Vietnamese factions would meet informally. He added that Japan is ready to provide economic support for a neutral and independent Kampuchea.

Mr Nakasone was in Thailand to celebrate the centenary of official bilateral relations. The Japanese government has taken the opportunity to stress the importance it attaches to relations with Thailand and to improve Japan's image there.

The Japanese government has promised to recycle $2bn of its foreign exchange surplus to an *Asean development fund, the* details of which are expected to be announced at an Asean summit in Manila this December.

On September 18 the two countries signed a soft loan agreement in which Japan will lend Thailand Y80.8bn.

Attempts by Asean to start negotiations in Kampuchea are deadlocked over the timing of Vietnamese participation. Vietnam and Indonesia recently agreed on informal talks involving initially the Vietnamese-backed *Heng Samrin* Government and the three groups in the resistance coalition, includ*ing the Khmer Rouge. The Viet*namese would join such a meeting later.

But the other Asean countries objected on the grounds that this arrangement would diminish the importance of the Vietnamese presence *in* Kampuchea, regarded by many as the key issue.

At an audience with the King of Thailand on Friday, Mr Nakasone offered *Y4bn in grant aid* to be spend over the next three years for an irrigation project in the south of *Thailand.*

He also promised to look into the possibility of untying some of the strings attached to Japanese *grant aid,* which has provoked Thai *protest by favouring* workers and products from Japan.

Bush meets Polish leader

BY CHRISTOPHER BOBINSKI IN WARSAW

Vice-President George Bush

MR GEORGE Bush, the US *vice-president, yesterday met* General Wojciech Jaruzelski of Poland on the second day of his *Polish visit designed to speed* up an improvement in relations which broke down six years ago in the wake of martial *law.*

The visit crowns a year of lower-level bilateral contacts which started after General Jaruzelski amnestied Poland's political *prisoners* last autumn. The US has so far adopted the toughest line among Poland's *Western government creditors* on rescheduling the country's $35.3bn foreign debt and this *visit is* seen by the *Polish* authorities as an ideal opportunity to put the case for easier terms and a resumption of credits.

The visit takes place just before Mr Bush is formally toannounce his candidature in next year's presidential election and the *programme* has been finely tuned to put him in the best light for the TV audiences back *home.*

He is visit Auschwitz before he leaves Poland tomorrow and has laid a wreath *in* Warsaw at the monument to the victims of the ghetto uprising. His support for Polish national aspirations was underlined by a meeting with Mr Lech Walesa ,the Solidarity leader yesterday evening. At the last minute however, *the Americans* withdrew a previously extended invitation to Mr Jacek Czaputowicz ,a leader of Freedom and Peace ,a pacifist group who had been planning to raise the case with Mr Bush of Mr David Kerley, from Kansas, serving three years for refusing to register for military service in the US.

Yesterday Mr Bush ,a Presbyterian ,attended a Catholic church service just outside Warsaw. He told an applauding congregation in a speech from *the altar steps* 'the last few years have been difficult and we in the United States have watched and suffered with you. But we are confident you will prevail.'

Earlier ,to the discomfort of Polish officialdom, Mr Bush met a leader of Farmers' Solidarity ,Mr Gabriel Janowski ,at a private farm which the authorities *had insisted Mr Bush* should visit. Mr Janowski had been invited by the owner ,Mr Jan Salwowski ,who had been chosen as a better representative of the private sector than a farm picked for Mr Bush to visit by US officials.

So far Mr Bush has failed to attract significant crowds and the hundreds of people who have turned up have invariably found themselves *in* the company of least four busloads of Polish plainclothes policemen who are following him wherever he goes.

Inner-city revival scheme for 'mini' corporations

BY PETER RIDDELL, POLITICAL EDITOR

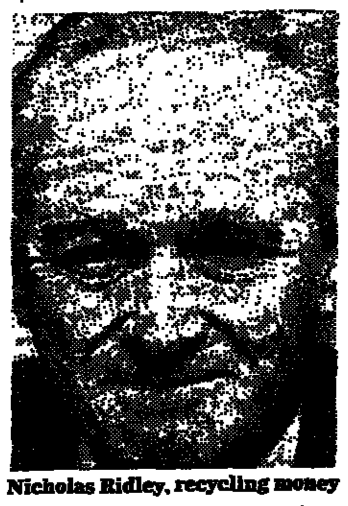
A NEW GENERATION of 'mini' urban development corporations to help revive inner-city areas is due to be announced by the Government before the end of this year.

The number and identity of the corporations has yet to be decided and will depend on the current Whitehall reviews of public spending and urban policy.

The Department of the Environment is confident that before Christmas it will be able to announce several new corporations with similar sweeping powers to the existing six in England but smaller in scale and also financially cheaper.

Among the likely sites are cities in the East Midlands, such as Leicester and Derby, where ministers feel that local authorities are holding up the development of land and are sometimes hostile to business.

However, unlike most existing corporations in places such as the London Docklands and Teesside, the obstacles to the new sites are not so much those of needing large sums of money to make derelict land suitable for development but rather those of planning constraints.



Nicholas Ridley, recycling money

The new 'mini' or 'cashless' corporations will therefore require much less money than the existing ones for land reclamation but will have the advantage of being planning authorities with land assembly and compulsory purchase powers. The aim will be to ensure business confidence and to attract private-sector capital.

That reflects the view of Mr Nicholas Ridley, Environment Secretary, that the role of his department should be to spend money, often in conjunction with the private sector, to help to improve and regenerate land and property for resale at a profit.

That would provide money that could be recycled, reducing the call on the Treasury.

Final decisions will depend in part on a current Whitehall review of urban policy to assess the regional distribution of the various grants.

Mr Ridley has also yet to reach agreement with the Treasury on finance for new projects such as the 'mini' corporations and the housing action trusts that would take over local authority estates.

Detailed proposals for the trusts and for a changed system of housing benefits after rent deregulation will be set out in a housing white paper to be published tomorrow.

B & C to set up venture company

By Charles Batchelor

BRITISH & Commonwealth Holdings, the financial services group headed by Mr John Gunn, is to set up a £100m development capital fund to rationalise its existing patchwork of investments and to back ventures of its own.

B & C Ventures says it intends to broaden the traditional definition of development capital by putting its money into small quoted companies as well as into unquoted investments. It will avoid start-ups and early-stage financing to concentrate on management buy-outs and expansion funding.

Mr Ian Hislop, joint managing director of the new management company, said: "There is no difference between a £20m company which is quoted and one which is unquoted.

"We think there is a gap to be filled in providing funds for the smaller quoted company. Their shares are often under-researched by the brokers and are relatively unmarketable."

Mr Hislop and Mr Richard Wevill, also joint managing director, have been brought in to set up B & C Ventures after establishing the development capital arm of Abaco Investments, the professional services group in which B & C has a 28 per cent stake. They have a team of five executives that will expand to eight.

B & C began making venture and development capital investments before the terms became fashionable but its complicated company structure, comprising operating subsidiaries, associate companies and investments, often confused the City.

"We have to become more focused," said Mr Hislop. "People now know where to come within B & C if they want money."

Excluding the parent company's stakes in trading subsidiaries, its quoted and unquoted investments have a book value of £100m. Not all of those will be transferred, however, and more than half of the new fund's value will be new money.

B & C Ventures expects to be able to take a longer-term view of its investments than the normal venture capital fund, said Mr Wevill. Unlike the normal fund manager it will not be under pressure from institutional backers.

New targets for urban funds

BY IAN HAMILTON FAZEY, NORTHERN CORRESPONDENT

THE GOVERNMENT is to switch its urban programme funds into job creation by severely limiting the type of project it will support.

In future the money will be concentrated on turning derelict factories into managed workspace for smaller or growing businesses. "Community projects", favoured by Labour-controlled authorities, will not be permitted.

In an interview with the Financial Times, Mr David Trippier, the inner cities minister, said: "I would rather support managed workspace than a social club with, possibly, political leanings."

The shift of urban programme funds from "social spending" into job creation was signalled by Mrs Thatcher when she toured Teesside last week. She said that funds were to be "retargeted".

"Social" projects - such as building clubs, resource centres and community centres - which are usually led by a local authority now seem doomed. Mr Trippier hopes that private-sector developers will play a leading role in what he sees as an "old factories into new jobs" initiative.

Under the urban programme the Government pays 75 per cent of the cost of those parts of any project which qualify for support. The minister said that he would insist that was acknowledged through prominent display on every project of its Action for Cities logo and slogan - "Building on Initiative".

Ministers are believed to be tired of local authorities taking most of the credit for urban programme schemes, denying the Government the favourable publicity involved.

Mr Trippier cites east Manchester, where many old red-brick mill buildings are either disused or only partly occupied, as a prime target. He wants to channel urban programme money into structural repairs and refurbishing the buildings for smaller businesses.

He envisages every project providing centralised secretarial, computing and accounting facilities for the tenant businesses and believes that counselling would be available as enterprise agencies set up or relocated there.

Managed workspace schemes have already proved themselves successful incubators of small businesses, improving survival prospects and shepherding the best prospects to faster growth elsewhere on industrial estates.

BAT Industries was among the early pioneers with a warehouse conversion in the Liverpool docklands. One of the most spectacular successes has been the Dean Clough Industrial Park in Halifax, West Yorkshire, a 1m sq ft complex of disused carpet mills.

The conversion was carried out by Mr Ernest Hall, the co-founder with Mr Tony Clegg of the Mountleigh Group. Dean Clough is 60 per cent occupied by more than 250 businesses which pay more rates in total than the mills did when they made carpets.

Council agrees Royal Docks deal

BY BRIAN GROOM

LABOUR-CONTROLLED Newham Council in east London has buried its differences with the London Docklands Development Corporation and has reached an important agreement to co-operate with the commercial development of the borough's disused Royal Docks.

Council leaders hope the deal will yield up to £100m in social and economic benefits from the corporation and developers.

The wide-ranging agreement is a breakthrough in the LDDC's often strained relations with local authorities since the Government set it up in 1981. It marks a shift in the political climate as urban development corporations are set up around the country.

In return for council approval for roads and infrastructure works, the corporation will attempt to ensure that 1,500 homes are built which are cheap to rent or buy. It will put £10m over two years into community projects such as schools, meeting places and environmental schemes - a figure which could eventually grow to £60m, though not all from LDDC coffers.

The two sides have agreed to try to ensure that 25 per cent of the jobs created in the borough will go to local people. This will involve identifying and catering for the training needs of potential employers.

The council may also put some of its land assets into proposed developments, which would enable it to receive a proportion of the profits made by companies moving into the docks.

The LDDC is in negotiations with three consortia to develop different parts of the docks. One of these, Rosehaugh Stanhope, will seek outline planning permission for its proposals from the corporation's planning committee tomorrow. A second consortium includes Conran Roche, Heron and Mowlem, and a third has John Laing and Mountleigh among its members.

The agreement between Newham Council and the LDDC is due to be signed tomorrow. Some of its provisions require approval by the Environment Department.

Newham Council expects criticism from community groups that the deal does not provide enough benefits for local people and that development of the Royal Docks could detract from East Ham and Stratford as shopping centres to the west.

However, Mr Steve Timms, chairman of the council's joint planning and policy committees, has told protestors: "We are getting the best deal we can. These are not the crumbs from the table we have been used to."

BBC China radio strengthened

By Raymond Snoddy

BBC EXTERNAL Services yesterday turned up the sound for tens of millions of potential listeners in Peking, Shanghai and throughout northern and central China.

Until yesterday the corporation's signal from transmitters in Singapore only just made it to Peking. The faint, often inaudible signal had to compete with a powerful Voice of America transmitter on Guam and with Radio Australia's Chinese service.

Now programmes in English and Mandarin will be fed by satellite to the new £9m transmitter, the BBC's East Asia Relay Station, sited in Hong Kong. It is part of a £100m audibility programme approved by Parliament in 1981. Broadcasts from Hong Kong will go throughout east Asia on two new 250kw transmitters.

The audibility programme is designed to create an audience for BBC External Services by replacing old transmitters, many of Second World War vintage.

Mr John Tusa, managing director of BBC External Services, who will be holding a press conference in Peking tomorrow, said: "A quarter of the world is being opened up to us with the introduction of this new facility."

China, where the number of radio sets has grown from 1m in 1955 to more than 150m now, will receive daily 10 hours of English-language World Service and 2½ hours of Mandarin, an increase of one hour.

Broadcasts to Japan will also increase. The corporation is waiting to hear from the Foreign Office whether it can have the £150,000-a-year extra funding needed to launch a Korean-language service.

The corporation hopes five radio transmissions a day in English will be a significant audience-builder. Its English-language teaching series called Follow Me was a peak-time hit on Chinese television.

The corporation has no idea how many listeners it already has in China. It receives 20,000 letters a year from there.

Mr Graham Mytton, head of international broadcasting and research, is in China with Mr Tusa. He hopes to introduce audience research there for the corporation.

The corporation broadcasts 24 hours a day in English and 36 other languages. It says it attracts 120m regular listeners, with an annual budget of £110m including cost of the Monitoring Service at Caversham, Berks.

The next stages of the audibility programme and the contest with Voice of America - which is spending £100m on new transmitters in Israel's Negev desert alone - include new transmitters in Lesotho, to cover southern Africa, and in the Seychelles, to broadcast to East Africa and the Horn of Africa.

Lobbying to begin over tapes levy

By John Griffiths

THE UK's music industry is expected this week to start lobbying Lord Young, the Trade and Industry Secretary, urging him not to abandon proposals for a 10 per cent levy on blank audio cassette tapes.

The measure, aimed at providing musical performers and the music industry with some measure of recompense for revenue lost to widespread "pirate" copying, was expected to be included in the Copyright and Intellectual Property Bill due to be introduced to the House of Lords shortly.

Previous green and white papers on intellectual property rights from the Department of Trade and Industry had supported the levy, concluding that there was no technical way in which the industry could prevent unauthorised copying, and acknowledging the impracticality of putative voluntary licensing schemes.

Lord Young, however, who succeeded Mr Paul Channon as Trade and Industry Secretary in Mrs Thatcher's post-general election Cabinet shuffle, is said to have asked whether the levy might appear to legitimise unauthorised copying by companies and private individuals.

The department yesterday denied reports that a decision had already been taken not to proceed with the levy. It was one of a number of issues being reviewed by Lord Young.

Proceeds from the levy would go to the holders of the copyrights attached to the cassettes' contents.

If the levy is not introduced, the music industry, which claims to be losing millions of pounds a year from "pirating," is likely at least to demand that the DTI comes up with some fresh proposals.

The levy legislation has been long promised and the industry has already shown its anger over failure to implement it once. A bill originally intended to introduce the levy was squeezed out of last year's parliamentary programme by the election.

Factory space outlook better

BY PAUL CHEESERIGHT, PROPERTY CORRESPONDENT

THE AMOUNT of space available in England and Wales for the manufacturing and distribution industries continued to decline through the summer, but the rate has been levelling off and there are signs that the trend is about to go into reverse.

On the basis of the experience in recent months, "the stock of available space will show an increase in December 1987," according to King and Co, chartered surveyor, which has been conducting surveys of available industrial floor space every four months since 1975.

At 95.5m sq ft, the total space now available is at its lowest level since 1980.

Tighter availability of industrial space reflects in part an expansion of economic activity. But it is also a result of changes in land use and a lack of institutional investment in new industrial property ventures.

The higher level of demand for the space available has led to an increase in charges for companies taking new premises. Debenham Tewson and Chinnocks, chartered surveyor, recently reported that in the year to mid-1987 there was an average 15 per cent increase in rents.

For the Government, seeking to spread economic expansion out of the south-east, an encouraging aspect of the latest King survey is that space is being taken up more rapidly in the Midlands, north, north-west and Yorkshire and Humberside.

Debenhams to take Merry Hill space

BY OUR PROPERTY CORRESPONDENT

DEBENHAMS, the department store chain in the Burton Group, is to take 125,000 sq ft of space in the final phase of the Merry Hill Centre at Dudley, near Birmingham, Richardson Developments has announced.

Merry Hill and the Metro Centre at Gateshead are the first of Britain's new regional shopping centres being built or planned on the edge of large towns. Richardson is developing Merry Hill on the site of an old steel works, employing the panoply of enterprise zone tax concessions.

The arrival of Debenhams anchors the final phase of the shopping development. The store joins Top Shop, Top Man, Principles and Dorothy Perkins, all of which are Burton subsidiaries. Other groups taking space in this phase include Boots, Littlewoods, Next, Sears and W. H. Smith.

Richardson has so far brought into operation 600,000 sq ft of shopping space. Merry Hill, scheduled for completion by September 1989, will have 1.2m sq ft of shopping.

Directory fraud warning

BY DAVID CHURCHILL

A WARNING to companies not to pay invoices for bogus directory entries was given yesterday by the Confederation of British Industries.

The CBI said although the scale of the matter had been reduced, companies should still be wary of directory frauds. About £1m was lost last year by British companies to fraudulent invoices.

Mr Norman Rose, a member of the CBI's legal department, said yesterday: "These international pests are still plying their trade and, unfortunately, some unsuspecting firms are falling for it."

The CBI believes that many of the fraudsters are operating from West Germany and Switzerland. They send out invoices purporting to relate to entries in "international telex directories." Many of the invoices carry a deliberate mistake relating to the entry which, when corrected, is alleged to amount to an order for it to be included in the directory.

Motor trade 'faces no oversupply of used cars'

BY KENNETH GOODING, MOTOR INDUSTRY CORRESPONDENT

THE MOTOR trade is not facing a widespread or ominous oversupply of used cars even though new-car sales in August reached a record 407,333 units, says Glass's Guide to Car Values, one of the motor trade's widely used reference books.

That is partly because the trend towards private sales has again deprived the trade of a growing number of the more desirable cars, it says in its editorial for next month.

Used cars in good condition and under five years old are fetching prices between 1 per cent and 4 per cent higher than for the corresponding period last year "and there is little indication that this will deteriorate in the coming months."

The book says: "We feel that in the weeks ahead the disposal of good clean cars at all mileages will pose few problems. It is the below-average cars which will become more difficult to sell."

It says the introduction of the prefix letter to car number plates annually in August appears to have had "an effect both greater and longer-lasting than was originally expected."

It estimates new-car sales last month will account for 21 per cent of the total expected for the year. That is very close to the average 20 per cent for August in each of the five years since introduction of the prefix letter in 1983.

In contrast, the average for sales in August for the past five years of the suffix, that is for 1978-82, represent only 16 per cent of the annual total.

The book predicts that new-car sales this year will rise by 3 per cent on last year's record, to 1.94m. That concurs with latest statistics from the Society of Motor Manufacturers and Traders.

Those show that, after the record August, in the first 20 days of September new-car registrations were 8.6 per cent ahead of those for the corresponding period last year, at 105,423.

Parkers' peril grows as clamps go private

BY JOHN GRIFFITHS

IF THE agreements currently being negotiated by Mr Barry Hancock prove successful, motorists desperate to park may face more widespread close encounters of the expensive kind with the notorious wheel clamp.

Brighton-based Vehicle Parking Protection Services, which since the clamp was first introduced has been selling them to commercial vehicle operators as anti-theft devices, is branching out into clamping services on private property.

Mr Hancock, a partner in VPPS, said at the weekend that hotels and companies with private car parks "have shown very encouraging interest" after details of VPPS's intended modus operandi were announced in the Brighton and Hove area two weeks ago.

Under the scheme, VPPS provides property owners eager to discourage illegitimate parkers with signs for prominent display on their sites. They proclaim that unauthorised parkers will be clamped and that a £25 fee will be charged for the clamp to be removed.

Doubtless much to the relief of the client company or other property owner, it is to VPPS itself that the notices direct the "clampee" for removal of the device.

Only two requirements are made of the "client," said Mr Hancock - to pay for the signs and to make the complaints. The £25 fee goes to VPPS.

Disavowing visions of a national chain of VPPS clamping units, he suggests, nevertheless, that, based on initial reactions, the idea might burgeon in popularity among property owners, particularly in urban areas hard pressed for parking space.

Lionweld Wheelok, of Middlesbrough, Cleveland, maker of the clamps that have been used by London's Metropolitan police for three years, says it has encountered growing demand from private sources - but usually for anti-theft usage by, among others, car dealers. (One order, however, is said to have been from Pakistan - from government officials in the north-west frontier region anxious to reduce the number of vehicles "borrowed" by Pathan tribesmen.)

The use of the clamp on private property has also been investigated by, among others, the Automobile Association.

The conclusion has been that the operation envisaged by VPPS is within a property owner's rights, subject to the notices proclaiming the consequences of parking being prominently displayed.

However, UK legislation does not permit the remedy available in the United States - where tow-charging operators simply tow the offender away.

Hattersley strategy for revival

LABOUR had to rehabilitate socialism in the same way that Mrs Margaret Thatcher had revived conservatism, Mr Roy Hattersley, the party's deputy leader, claimed yesterday in Brighton.

Mr Hattersley, who was addressing the Solidarity rally on the eve of Labour's annual conference, said the Tories had promoted a range of policies - from trade union legislation to privatisation - for unashamedly political reasons. Labour now had to advocate its beliefs with equally triumphant certainty.

He rejected the idea that Labour could never again form a government on its own. Its task was not to reject ideology but to choose and maintain a correct and clear ideology. "What we need now is not the abandonment of philosophy but clear association with the real philosophy of democratic socialism," Mr Hattersley suggested.

He added: "Our future depends not in pretending that we have no fixed principles, but in asserting that the principles on which we stand point the way towards a fairer and more efficient society."

The deputy leader claimed that Labour could not afford to entertain the idea of coalition politics. A party built around a clear, consistent and coherent ideology could not negotiate away its programme and its principles to secure the support of a minority party.

He added: "This year the issue does not arise. Talking today about coalition with the SDP would be like proposing marriage to a corpse."

Mr Hattersley also rejected those within the Labour Party who were calling for proportional representation. On Friday, he would be advising the party to vote decisively against, not just for tactical reasons but on an argument of principle.

He said proportional representation was an electoral contrivance which produced two inevitable and undemocratic results - the election of the "second best" and the eclipsing of radical policies in a way which denied voters a real choice.

Proportional representation, he claimed, led to "the soggy middle ground of minimum commitment, minimum conviction and minimum confidence in ultimate victory."

Mr Hattersley warned that if Labour attempted to portray itself as a party of pragmatists, the public would think either that it believed in nothing at all "or in every half-baked idea that is published in all the hand-printed magazines produced on the wilder shores of politics."

He said the party had to show that the principles of democratic socialism were so relevant to daily life that to argue their merits was to demonstrate that Labour was the party of the whole nation, ready to lead it into the next century.

Labour, he stressed, had to steer a steady course, not swinging wildly between one policy designed to attract the middle classes and another intended to prove that it remained the party of socialist fundamentalists. "The real philosophy of socialism - the protection and extension of real freedom - had an immense popular appeal.

He continued: "We do not have to choose between principle and popularity as long as we make clear that we support the real principles of socialism and not either the half-baked ideas of the fringes and factions, or the supremely unattractive heresy that socialism is about regulation, direction and interference in the daily lives of ordinary citizens."

On BBC1's This Week, Next Week, Mr Hattersley pressed home his attack on the party's left wing, claiming that it was bankrupt of ideas and could only advocate a "rag-bag of notions" not associated with true socialism.

He said Labour was not about to indulge in a bout of recriminations but was ready to rewrite those policies which now needed rewriting "in a steady and remarkably fraternal way." He said he was not, at this stage, prepared to say which policies would have to be changed.

Roy Hattersley: pointing way to a fairer society

Hard left warns party over move to centre

A STRONG challenge to the Labour leadership's analysis of the general election result and to its proposed future strategy has come from the party's hard left in a series of pre-conference pamphlets and fringe meetings.

A group of MPs, including Mr Tony Benn, Mr Ken Livingstone, and Mr Alan Meale, on Saturday published a 20-page pamphlet challenging the national executive's statement which advocated a review of policies to win support of better-off workers, particularly in the south.

The pamphlet, entitled Labour's Future, claimed that the leadership was concentrating too much on skilled manual workers who switched to the Tories, rather than on the growing group of unskilled and semi-skilled manual workers, together with clerical workers.

The critics argue that the leadership is downplaying the party's links with the unions and should adopt a new strategy developing its policies on women and the changing sexual and racial composition of the workforce.

The essential case of the hard left was put most succinctly and wittily by Mr Dennis Skinner, the MP for Bolsover, at a fringe meeting of the Campaign for Labour Party Democracy yesterday morning. He warned against "adopting the mantle of David Owen." He said: "It is not the job of socialists to shift our ground to the area left by the SDP."

With a reference to the luxurious seafront headquarters hotel, Mr Skinner said the party should "stop drifting towards Ramada." Labour, he said, had lost the election because there was "not enough socialism."

Both Mr Skinner and other speakers at the meeting attacked the leadership approach epitomised by recent speeches of Mr Bryan Gould. Ms Diane Abbott, the black MP from Hackney elected to parliament for the first time last June, attacked moves to the centre appealing to "the mythical yuppie vote."

Similarly, Mr Ken Livingstone, new member for Brent East, dismissed as "nonsense" Mr Gould's alleged view that wider share ownership would help to produce a big increase in Labour support and a shift in the balance of power.

Reports by PETER RIDDELL, MICHAEL CASSELL and PHILIP BASSETT

Mr Livingstone argued from Labour's history that attempts to accept Tory policies had failed on every occasion.

The conference newsletter of the Campaign for Labour Party Democracy says this week "will decide whether Labour's drift from socialism will continue or whether the tide is turning."

The newsletter asserted: "For four years the party has lived in a dream world. The disastrous result of the election, however, should have made clear that concessions to the capitalist status quo and Tory philosophy did not work.

"Far from winning us votes, they actually prevented Labour from projecting itself as a credible and positive alternative to Thatcherism."

Much of the hard-left criticism is concerned with the policy review and with proposals for widening the franchise of the selection of parliamentary candidates.

Under the headline, "Roll Back New Realism," Mr Eric Heffer, the MP for Liverpool Walton, writes in Labour Briefing that the new proposals "are simply another means of weakening party democracy and another excuse to drop socialist policies."

Criticising suggestions for a series of public meetings, he says: "What kind of political party simply echoes whatever ideas happen to be popular at any given time? If people tell us they want to see hanging brought back, does that mean hanging should become official Labour party policy?"

Peter Riddell on the ideological war of words within the Labour Party

Taking the flak on modernisation

UP AND DOWN Brighton seafront yesterday Labour activists and journalists could be seen clutching multi-coloured leaflets and pamphlets, scurrying from one fringe meeting to another - all packed and concerned with debating the party's future strategy.

After the Fabians late on Sunday evening, there were in succession - and not on any left-right spectrum - the Campaign for Labour Party Democracy, Solidarity, the Labour Co-ordinating Committee, Labour Briefing, and Labour Left Liaison.

The speakers overlapped and by last night Mr Bryan Gould and Mr Ken Livingstone had each spoken four times, though only once on the same platform. Their rival candidacies for a place on the constituency section of the national executive symbolise the debate this week over Labour's future.

Mr Gould, a respected but largely unknown junior spokesman a year ago, has become the centre of that debate. To the hard left he is a bogeyman. There were disparaging references to his views on wider share ownership in almost every speech at one fringe meeting yesterday.

Yet to the leadership, Mr Gould's advocacy of modernisation is the key to the policy reappraisal. He clearly has the blessing of Mr Neil Kinnock, the party leader, who has himself kept an unusually low profile in the past week. Mr Gould has been the "point man" taking the fire.

By yesterday morning it looked as if Mr Gould might be overreaching himself. His revisionist talk about the virtues of share ownership and his reference to "upward mobility" being "a very proper socialist objective" raised a number of eyebrows, and not just on the hard left. There has, of course, been an element of personal rivalry and jealousy, given his very rapid rise.

Bryan Gould: talk of "upward mobility" caused resentment

Nevertheless, at an afternoon meeting of the Labour Co-ordinating Committee, Mr Gould very obviously sought to answer his critics and offer reassurance. Taking up a point made by a questioner at a meeting of the Child Poverty Action Group the previous evening, he stressed that his views did not mean greed coming before need. He went on to deny that he was proposing "a bonfire of commitments and principles."

Instead, he stressed his belief in equality and redistribution, public ownership (particularly for monopoly utilities) and in a non-nuclear defence policy.

He made clear his belief that broadening share ownership was intended principally to enhance employee interests and to democratise pension funds against the interests of the City.

It was, he argued, a question of leapfrogging Thatcherism, rather than constantly defending the status quo.

This approach did not satisfy even some of his usual allies. Mr Robin Cook, whom Mr Gould replaced on the shadow Cabinet a year ago, remarked after his speech that "I've tried it with water and with ice, but I still find a difficulty swallowing wider share ownership."

Earlier, Mr Roy Hattersley, party deputy leader, while repeatedly professing his agreement with Mr Gould, noticeably put much more emphasis on ideology and the need for principle than on pragmatism. And in a BBC interview he said he was sure that Mr Gould's talk about share ownership applied to workers taking a stake in their own companies, since owning shares in other concerns was not socialism.

On one point, however, all in the party are agreed. There can be no question of any kind of deal with the Liberals, the SDP or any merged party. The unusual alliance of Benn, Livingstone, Gould and Hattersley has firmly stamped on suggestions of such an electoral pact or understanding made earlier this summer by Marxism Today and the New Statesman, those house journals of the fashionable left.

Similarly, there has been a firm rejection of calls for proportional representation, which have been made in a number of resolutions to the conference, and it is significant that Mr Hattersley has been asked to reply.

The Labour leaders of all shades are agreed that any electoral pact would do great damage to the party without providing any electoral benefits in return. They point to opinion polls showing that the Tories have benefited as much as Labour, if not more so, in the past couple of months from the fall in the Alliance vote.

At a Fabian meeting, Mr Gould was clear that Labour's salvation lay in its own hands in extending and improving its appeal, and a deal with the Liberals would inhibit that process.

At the same meeting, Mr Richard Holme, a close adviser to the Liberal leader, Mr David Steel, also rejected talk of an electoral pact, but urged Labour to accept proportional representation. He said this would mean that Labour would have to accept electoral competition, rather than clinging to duopoly and its electoral cartel with the Tories.

Labour, however, is firmly committed to regaining office and power on its own, without any such deals or changes in the electoral system. But it is a high-risk strategy since, as Mr Gould warned, "unless we win the next election, the future of the Labour Party itself will come into question."

Kinnock set for victory over party franchise

MR NEIL KINNOCK, the Labour leader, appears certain to win the argument over widening the franchise in the selection and reselection of party candidates.

The Transport and General Workers Union, meeting in Brighton yesterday, decided to support the proposed electoral college which constitutes one member one vote, with the unions taking a 40 per cent share.

But while Mr Ron Todd, the union's general secretary was confident this was the right way forward, Mr Arthur Scargill, president of the National Union of Mineowrkers, said: "We need a change in the system of selection and reselection of MPs like a hole in the head."

He said: "We want to win not the yuppie vote nor the 100,000 Guardian readers but the 4.5m people who are unemployed and most deprived.

"If we win that section of the working class, frankly we would form the next Government after the general election."

Mr Todd was confident that with TGWU support the extended franchise through the electoral college would be carried by the conference.

"We support the widening of the franchise but we believe a new system should protect and maintain the position of trade unionists.

Hint of nuclear policy revision

LABOUR's nuclear disarmament stance could become a casualty of the party's total review of policy in the wake of the party's third successive election defeat, it emerged today.

Mr Neil Kinnock, speaking on the BBC TV Panorama programme to be transmitted later today, said it would be "even less advisable than usual to absolutely screw in attitudes and say that they are utterly permanent fixtures.

"The permanent fixture is the need to defend our country properly, the need to be effective allies and the need to meet those duties.

"The systems of weaponry that evolves around — that is subject to change as the superpowers have currently demonstrated."

Earlier, Mr Kinnock stressed: "We are undertaking a policy review which excludes nothing so that it is candid, thorough and undertaken in conjunction with the party, the movement generally and also with the general public.

"It would be stupid at this stage to give a forward picture of exactly what is going to emerge.

Union block votes show only slight decline

TRADE UNION voting strengths within the Labour Party are declining much less sharply than overall union membership levels, according to figures published by the Labour Party yesterday.

The disparity between union memberships and the numbers affiliating to the Labour Party is likely to prompt renewed criticism of trade union votes at the Labour Party conference. This anomaly comes at a time when union block votes are coming under increasing scrutiny with the Labour leadership's attempt to widen the party's franchise base.

Figures released by Labour yesterday in advance of the opening of the party conference today show a decline in union affiliation strengths from 5.846m in 1986 to 5.792m this year. This drop of 0.9 per cent contrasts sharply with the much steeper decline in overall union membership. Membership of TUC unions, according to figures presented to the annual TUC Congress earlier this month, fell by more than 9.8 per cent.

Trade unions decide at what membership level they will affiliate to Labour, and pay affiliation fees accordingly, which has led in the past to accusations of unions "buying" votes.

Taken together, the unions with declining affiliation levels have dropped by 109,600 - much of it made up by a fall in the affiliation level of the National Union of Mineworkers, from 208,000 to 136,000. Though this is a fall of 72,000, it still leaves the NUM's Labour vote considerably above its TUC vote of 104,000.

Other large decreases include the pit deputies, Nacods, down 4,000 to 12,000, the shopworkers' union, Usdaw, down 7,000 to 352,000 and the NUR railwaymen and NCU communication workers, each down 4,000 to 140,000 and 91,000 respectively. One thousand votes have been lost by the disaffiliation of the Scottish Carpet Weavers' union.

But these losses are offset by some unions increasing their affiliation, to a total of 55,000 extra votes.

Much of this is made up of the 20,000-strong affiliation of the Broadcasting and Entertainment Alliance, the first union to affiliate to Labour since 1964.

But there are other increases, all of them at a time when many of the TUC-registered membership levels of the unions concerned are declining.

Both the NGA craft print union and the Musicians' Union, for example, have increased their affiliated vote by 10,000, according to Labour Party figures, to 41,000 and 16,000 respectively.

The UCW postal union is raising its affiliation level by 9,000 to 191,000, and the film technicians' union, ACTT, by 3,000 to 5,000 - a 66 per cent increase.

● Trade union moderates are convinced that Ms Joan Maynard, the hard-left MP for Sheffield Brightside, will be voted off the national executive committee in election results which may be announced today.

Leaders of the TGWU transport union are believed to be among those who have decided this time not to vote for Ms Maynard for the six NEC seats available in the women's section of the executive.

It looks likely that her place will be taken by Ms Anne Clwyd, MP for Cynon Valley, who is regarded as a close supporter of Mr Neil Kinnock, the party leader.

Electricians face test case over single-union deals

BY CHARLES LEADBEATER, LABOUR STAFF

THE EFFECTIVENESS of TUC attempts to minimise conflict between unions over single-union recognition agreements will face a crucial test this week when the EETPU electricians' union withdraws from such an agreement at a plastics factory. This is in compliance with a TUC instruction.

The EETPU's single-union agreement at the Elco Plastics site, High Wycombe, formerly part of Thorn-EMI but now owned by Thomsons, the French electronics company, expires at the end of the week.

The union gave the company notice of its withdrawal from the agreement earlier this year after a TUC disputes committee ruled that the agreement breached the Bridlington Principles covering inter-union relations.

The TUC instructed the EETPU to co-operate in a joint approach to the company with Tass, the manufacturing union, and the AEU engineering union to win joint recognition rights.

Many will see the attempt as a test case of whether TUC rulings encouraging joint recognition can be effectively applied, even with the co-operation of unions which signed the initial single-union agreement.

Leaders of Tass and the AEU will press ahead with plans to win the joint recognition agreement, backed by shop stewards at the plant who have urged workers to leave the EETPU.

Tass officials said that almost all the 200 workers at the plant have withdrawn from the company's "check-off" arrangements under which union subscriptions are automatically deducted from workers' pay packets and passed to their union.

Mr Larry Brooke, a Tass national official, said that most of the workers have written to the EETPU formally resigning. He accused the company of attempting to dissuade workers from joining Tass, or the AEU, by saying that the company would never recognise either union.

The company has said that it wants to continue with a single-union agreement with the EETPU.

Mr Brooke, said that in spite of the company's position the EETPU had complied with the TUC ruling.

Mr Jack Wyman, an AEU national official, has written to the company asking for a joint meeting. The union plans to take its case to the company's owners should a local approach fail. Mr Brooke said that the unions would also call on the help of European unions to press their case.

The dispute over recognition at the plant arose after the company transferred production there from a plant two miles away, where most of the workforce were members of either Tass or the AEU.

The EETPU signed the sole recognition agreement after six of its members transferred to the plant from a sister factory at Gosport.

ACTT seeks talks on film fees

BY CHARLES LEADBEATER

UNION LEADERS representing freelance film and television producers and directors, yesterday called on the British Film and Television Producers' Association, and the Independent Programme Producers Association to reopen negotiations over payments for repeat showings of films to head off a threat of industrial action.

The producers and directors last week voted to hold their first ballot on industrial action over the issue. The 4,000 freelance film and programme makers will vote in a postal ballot over the coming month, on a plan to start industrial action in January.

The ACTT film and television union wants a secondary payments clause in every contract a producer or director signs with a company represented by the BFTPA, or the IPPA. The union said the two organisations have refused to negotiate meaningfully over the claim for payments for repeat showings.

Under the agreements covering feature and special films, freelance producers and directors receive no additional fees films sold to markets for which they were not originally made.

The union's agreements covering producers and directors were drawn up in the 1950s when there was little possibility that films might be re-used. The union said that the agreements do not take account of the enormous growth in income film companies have earned from reselling feature and special films to network television companies, cable and satellite television or distributed on video cassette.

While all production for Independent Television companies is covered by an agreement which ensures payments for repeats, the union fears that this will be undermined by plans to re-allocate 1,200 hours of BBC and ITV production to the independent sector. These moves will result in a significant deterioration in payments to freelance producers and directors, the ACTT said.

Staff of foreign-owned subsidiaries 'earn more'

BY JIMMY BURNS, LABOUR STAFF

EMPLOYEES OF foreign-owned subsidiaries operating in Britain, are better paid than their counterparts in UK-based companies in 16 out of 18 industry sectors, according to a report published this weekend by ICC, the specialist business information group.

The report, based on audited accounts for the year 1985-86, found the largest discrepancy was in the general distribution sector, which includes retailing.

There, the average annual wage of an employee of a foreign-owned subsidiary was £8,329 compared with £4,614 earned by an employee of a UK-based company.

Only in construction and the financial sector was the renumeration higher for UK company employees.

In the financial sector the average annual wage of an employee of a foreign-owned subsidiary was £10,562 compared with £11,572 in a UK-based company.

The report says an incentive for overseas investment in Britain is that wage rates are relatively low on a world scale given the skills of the workforce.

The report provides data on 1,500 foreign-owned subsidiary companies, classified into 20 key industrial sectors. It compares them against an average performance of UK companies in the same sectors.

Of the foreign-owned subsidiaries included in the report, 737 showed an increase in employment over the period 1983-84 to 1985-86.

ICC said that it was perhaps surprising that the engineering sector was well represented among those showing greatest employment growth. Eight engineering companies were among the top 50 companies in terms of employment growth, compared with nine each for chemicals and electronics.

The report also found there was little correlation between employement growth and profit margins.

"A profitable firm these days is not necessarily one that is going to provide job opportunities. A point which is particular relevant with regards to inward investment policy," the report says.

Foreign-Owned Company Performance in the UK. ICC Information Group, 28/42 Banner Street, London EC1Y 8QE. £185.00p.

NUM votes to continue ban on overtime

By Philip Bassett, Labour Editor

LEADERS OF the National Union of Mineworkers yesterday effectively outflanked attempts by hard-line sections of the union to hold a special NUM national conference to reinforce the union's overtime ban.

Senior NUM officials were ready at a meeting of the union's national executive committee in Brighton to propose that the issue of the union's industrial action over British Coal's disciplinary code should be put to a delegate conference on October 23.

Given the dominance in the conference of the union's Yorkshire area, which with a number of other regions is pressing for the action to be fully prosecuted and stepped up, putting the industrial action to a delegate conference would be likely to reinforce it.

This would have drawn full support for the action from NUM areas such as South Wales and Scotland, where the overtime ban is having its greatest effect. However, these areas also have serious reservations about the ban because it could increase the likelihood of British Coal moving towards further pit closures.

Yesterday, though, the executive voted by 13 votes to nine to continue with the present action, and to report on its progress at the next executive meeting on October 8, and at subsequent meetings.

Yorkshire miners urged making the ban more effective by stopping colliery maintainance at weekends, though maintaining safety cover.

The area's miners are to meet on October 22 to consider prosecuting the action more strongly.

But because the executive decision on the present action had already been taken, the motion for a delegate conference from Mr Arthur Scargill, NUM president, and the union's other national officials, was not put.

Mr Scargill said that it was not yet known what the full effects of the ban were, though he accepted that it was having a greater effect in some areas than in others.

Health Executive accused of gagging its workforce

BY OUR LABOUR STAFF

A CIVIL Service union yesterday accused the Health and Safety Executive of banning staff from telling journalists and MPs about a severe crisis facing the organisation.

The Institution of Professional Civil Servants, which represents the HSE's 1,600 inspectors, scientists, and medical staff, said senior officials were attempting to hinder the union's campaign to secure extra funds and staff for the organisation.

Mr John Rimington, the HSE's director general, in a circular to heads of department within the executive issued on September 17, warned that disciplinary action may be taken against staff disclosing details of the executive's operations. The circular said that it did not matter whether what was said was true, or even whether in an inspector's professional judgment it needed to be said.

The warning followed an article in a national newspaper by Mr Tony Blair, Labour MP for Sedgefield, in which he described how an HSE doctor from his constituency approached him over her fears that the HSE was being undermined through lack of resources.

Ms Liz Jenkins, the IPCS negotiator for the inspectors and scientists, said: "Mr Rimington is clearly and rightly embarrassed. The Health and Safety workforce knows it cannot meet its legal duties to set and enforce health and safety standards unless enough money and staff are provided." She said the organisation needed an extra £10m in next year's budget to keep pace with demands.

Grimsby may try to avert dock strike

BY JIMMY BURNS, LABOUR STAFF

LABOUR-LED local authorities in Grimsby may try to defuse the threat of a national docks strike arising from the likely closure next month of the Grimsby Landing Company.

Grimsby Borough Council has indicated that it might provide financial assistance for the formation of a company to provide employment for 60 fish "lumpers" at the centre of the current dispute.

Mr Alec Bovill, leader of Grimsby council, said at the weekend: "There is little or no chance of money being pumped into the existing landing company, but given a fresh start it may well be that both Grimsby Borough Council and maybe the county council would be willing to take a more positive part with regard to the finance."

The latest move follows the Government's decision earlier this month not to help the Grimsby Landing Company's move away from the "jobs-for-life" National Dock Labour Scheme.

The company has since indicated that it might unilaterally decide to use the Temporary Unattached Register to introduce a form of casual labour involving the 60 fish "lumpers".

The Transport and General Workers Union, which accepts the use of the TUR only in disciplinary cases, warned last week that such a move could spark off a national docks strike.

Grimsby Landing Company said at the weekend that it welcomed the idea of a new company taking over its operations if it could prove itself competitive with neighbouring Hull where local fish "lumpers" are not within the National Dock Scheme.

The company confirmed that it would almost certainly cease trading next month at the end of the main fishing season.

The EMS: an economic Maginot line

JOHN PLENDER

WHEN ALMOST everyone except Mrs Thatcher is in favour of Britain becoming a full member of the European Monetary System (EMS) it is surely time for the Monday Page to indulge in a modest outbreak of Thatcherism. It could just be that the EMS is the wrong solution to the wrong problem and that full membership might be rather damaging to Britain's economic health.

The economic case for full membership rests heavily on the notion that by joining the exchange rate mechanism Britain would bolster its medium-term strategy against inflation. In place of money supply targetry, long since discredited, we would have that unflinching guardian of monetary rectitude, the Bundesbank, standing as guarantor against Britain's supposedly endemic propensity to generate double-figure rates of inflation. The British population could then sleep safely at night while British manufacturers enjoyed stable exchange rates and, other things being equal, lower interest rates.

All very enticing. And certainly it would make sense to become part of a D-mark bloc if double-figure inflation were a serious worry and if these expectations of the EMS stood any chance of being realised. But is it and are they?

Much of the recent weakness in world bond markets reflected fears that a 1970s-style oil and commodity price upsurge was imminent—a curious concern, given the less than buoyant state of world demand. In the event the boomlet proved temporary. The fact is that inflation in the 1980s is not so much a global threat as a nagging problem for countries with weak currencies and trade deficits. For the United States, with its huge burden of debt, and a presidential election looming, it provides an all too obvious adjustment mechanism when policy is frozen.

Many economists cheerfully lump Britain into the same category. But this is a gross over-simplification. Thanks to North Sea oil, it is sitting on a mountain of external assets in a world of free flowing capital. This ought to mean—pace the stock market after last week's trade figures—that Britain can expect to grow without balance of payments constraint.

While wage inflation has been running at 7½-8 per cent, this has largely been offset by productivity increases. So Britain's export sector has not yet seen any dramatic decline in its overseas competitiveness after last year's sterling devaluation, because the serious inflation is confined to asset markets such as housing and to services.

In fact, it is remarkably easy to paint a scenario in which Britain is uniquely placed to maintain a competitive exchange rate and enjoy non-inflationary growth. Its industrialists are more confident than they have been for decades. There is a huge pool of under-used labour available. The Government has responded to signs of overheating well in advance, but without over-reacting. Does anyone seriously believe that Mrs Thatcher will preside over a new inflationary spiral? Only the stock market analysts, whose determination to fight the inflationary battles of the 1970s could conveniently contribute to maintaining a competitive exchange rate against Europe, while dollar weakness helps damp down imported inflation.

The purpose of this column is not to set odds on whether this rosy prospect will come true, but to observe that full membership of the EMS — or over-enthusiastic shadow membership—could well make it impossible to achieve. Consider, after all, the case of France, for whom the EMS has dismally failed to deliver a stable exchange rate, a dramatic reduction in inflation or substantially lower interest rates.

As Mr Charles Gave, of the economic and investment consulting firm Cecogest, points out, the average long-term interest rate in France over the past seven years has stood at 12.6 per cent, more than five points more than the West German equivalent. French interest rates are twice as volatile as those of Germany. And after years of experience of the EMS, the markets now expect an average devaluation of the franc against the D-mark of more than 5 per cent a year.

For the French, the EMS has been an economic equivalent of the Maginot Line, through which West Germany has exported deflation to the rest of Europe, while running a huge trade surplus, near-zero inflation and appallingly high real rates of interest. Does Britain really want to shackle itself to West Germany's dismal growth rate of around two per cent?

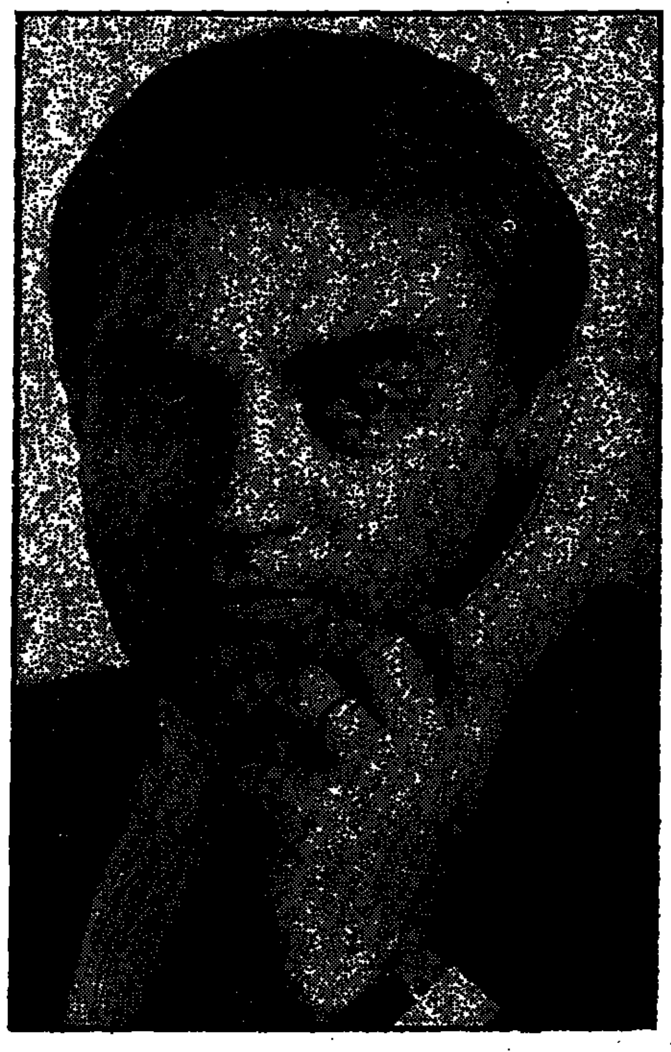
The recent changes in the exchange rate mechanism are supposed to put more of the burden of adjustment on the Germans. Yet the Germans declare that they will not concede sovereignty over monetary policy, which casts doubt on it all. For in the absence of joint agreement on fiscal and monetary policy, a fixed exchange rate system is no more likely to produce mutually satisfactory economic results than a floating regime.

For Britain the EMS looks suspiciously like a draconian macro-solution to problems that call for micro answers. In other words a Tory Government should, as I argued on this page on June 1, tackle house price inflation through the housing market. The EMS arguably has much more to offer Labour, for whom inflation is a tougher nut to crack. But that, with many remaining caveats, is a story for another day.

INTERVIEW

A skilful run for the line

William Dawkins meets Peter Sutherland, European Commissioner for competition policy



PETER SUTHERLAND, Ireland's pugnacious representative on the 17-man European Commission, is said by some of his colleagues to treat negotiating sessions with those who fall foul of the Community's competition rules like a game of rugby.

The analogy is appropriate for a man who broke his nose nine times while playing for University College Dublin, where he was captain of the team. It refers to the way in which this increasingly controversial Commissioner, in charge of competition policy, stuns his opponents with shows of aggression, only to tie them up later in legal argument (skills which he learnt during training as a barrister). A good rugby team will often use a similar tactic: opening with a display of force and waiting until the opposing side is shocked and exhausted before trying a more strategic approach.

The story illustrates how this 41-year-old former Irish Attorney General, under Garret Fitzgerald's Fine Gael government, has taken the political high ground in enforcing European Community (EC) competition policy. His approach marks a radical change from the Commission's earlier, more flexible stance on state aid and anti-trust regulations, the two main areas where this policy is applied.

He has taken an unprecedentedly tough stance against all kinds of state aid, price fixing and market sharing and seized for the Commission a more vigorous role in shaping the Community's competitive landscape.

In the process, he has tackled —though not yet beaten — the cosy price-fixing and capacity-sharing cartels of national airlines, imposed a record penalty on a polypropylene price-fixing cartel run by 15 of the EC's leading chemicals companies, forced the repayment of a record amount of illicit state aid in a decision against the FFr 338m (£34m) paid to Boussac, the French textiles group, and is starting to put pressure on member states to adopt a Community-wide merger control policy.

All this has brought Mr Sutherland some notoriety. He has had several political clashes with the French Socialist, Jacques Delors, Commission President, who feels that the Irishman sometimes pushes competition rules too hard at the expense of jobs.

Inevitably, Mr Sutherland's staunchly free-market views have brought him into conflict with left-wing Commissioners—although luckily for him the Brussels executive has a conservative majority. It is no secret that he does not see eye to eye on state aid with Stanley Clinton Davis, the British Commissioner for environment and transport policy, though outside the politically heated corridors of the Berlaymont building, the two have been known to enjoy a game of golf.

While the controversy aroused by Mr Sutherland is partly to do with what some describe as his Quixotic personality, it is also a corollary of his job. His is one of the few areas where the Commission can take decisions which profoundly affect member states, even to the extent of telling them how they can spend their money without first having to consult national governments.

● PERSONAL FILE

1944: Born April 25

Educated: Gonzaga College, University College, Dublin and Honourable Society of King's Inns

1968-1981: Practising member of the Irish Bar. Senior counsel 1980; appointed Attorney General of Ireland June 1981 August 1982 and from December 1982-December 1984

1985: Appointed member of the Commission of the European Communities in charge of competition and relations with the European Parliament

"It's about as close as you can get to touching the nerve of national sovereignty," he admits.

But how far in this direction does he think he can go and what kind of competition policy does he envisage for the EC?

He is keenly sensitive to any suggestion that he is sending that policy against the tide. The Commission's tough stance on anti-trust enforcement has been shown only recently, for example, by its decisions to scrutinise the proposed merger of British Airways and British Caledonian and to press for an agreement on EC-wide merger control regulation.

Meanwhile, critics might argue, industrial logic points to the need for larger groupings. They can cite the Reagan Administration's relaxed stance on mergers, as reflected in the US courts' increasingly liberal view of some restrictive price accords. While less merger regulation across the Atlantic does not necessarily mean Europe should follow suit, it does at least beg the question of why Mr Sutherland appears to be nudging the EC in the opposite direction.

"Deregulation has become a sort of buzz-word of the right in European politics and brings about a knee-jerk reaction of antipathy from the left. But you can't fit competition policy into a discussion on deregulation because competition policy regulates in order to provide freedom for the entrepreneur to operate," he says.

He maintains that US anti-trust authorities are, if anything, taking a harder line against potentially anti-competitive mergers, with a marked rise in the number of prosecutions. However, the attack has been on horizontal mergers where, for example, two producers club together to increase market dominance rather than vertical ones where the links are between manufacturers and suppliers or distributors.

But there is one key area where Mr Sutherland does not want to take European competition policy in the direction advocated by some US commentators of a similar political persuasion; he does not believe that market dominance by a few companies is a mark of efficiency.

One example is the car and truck industry, where the Commission took a positive view earlier this year on the proposed merger between DAF trucks of the Netherlands and the Rover Group's bus and truck division. It saw it as a much needed step towards strengthening a fragmented industry, despite the national restructuring aid being offered to the UK partner. Another is the investigation into the BA-BCal merger, where Mr Sutherland says any Commission response will be guided more by whether smaller carriers get adequate access to the combined group's routes, rather than by the question of size.

"While we like to think that we are very rigorous, we don't like to think we are ideological, except to the extent that efficiency is maintained and developed by competition, rather than by the lack of it," he says.

But if there is one creed on which Mr Sutherland is unlikely to show flexibility, it is his antipathy to state aid—a policy which has raised more controversy than any other. "Either through state aid or through state monopolies, we have created whole sectors which have become—and perhaps always were—inefficient and a drain on state resources," he says.

The prime example is steel, where years of national protection have "created a monster, which has resulted in enormous personal difficulties for the 250,000 people who have already lost their jobs and the 80,000-plus who have yet to lose their jobs because of overcapacity. That is the result of a failure in Europe to take on state aid and interventionism, and allowing national short-term considerations to dictate industrial policy."

Leaving aside the need to improve efficiency, Mr Sutherland sees a contradiction between allowing state aid to continue and the EC's attempts to create a genuinely free Community market by 1992. "It's self-evident that state aids have as big a distorting effect (on free trade) as anything placed by way of impediment on a border. This has to be a central facet of the present policy for the completion of the internal market," he argues.

In other respects, Mr Sutherland sees the development of the internal market—for all its practical problems—as having little influence on the general thrust of EC competition policy.

One specific and sensitive challenge will be how the Commission tries to ensure open competition in the fast-changing telecommunications industry, with its infrastructure dominated by national postal authorities. Rather than seeking to apply general EC competition rules—as in the case of his long-running crusade against airlines' restrictive accords—Mr Sutherland is examining the possibility of applying article 90 of the Treaty of Rome.

This would allow the Commission to tailor its competition regulations to the special circumstances of state monopolies, a largely untried device. It would give the Commission the power to force monopolies that "provide services of general economic interest" to comply with competition rules outlawing the abuse of dominant positions, on condition that they are not obstructed from performing their public tasks.

In the case of the airlines, a liberalisation package is being blocked by a row between Britain and Spain over the disputed territory of Gibraltar. With no agreement in sight, the Commission is taking legal action against individual airlines to force them to change their capacity-sharing and price-fixing agreements in line with EC competition rules.

The Commission is now mulling over replies from 10 leading European airlines to its demand that they should individually reform the more restrictive elements in their agreements. If the replies are unsatisfactory, the Commission can issue a so-called "reasoned opinion" laying out which aspects of the agreements contravene competition law, thereby opening them to legal action by customers.

All this invites the question of where Mr Sutherland feels the Commission's authority over competition law should stop and where national governments should take over. His opponents, especially among the West German state governments whose generous regional aids are the focus of a Sutherland scrutiny, argue that he is already trespassing too far on their sovereignty. Yet his supporters, most notable among consumers' associations, would argue that in the case of airlines and steel he and his colleagues have been too ready to compromise.

He believes the limit is simple to define. "The Treaty of Rome says we draw the line at anything that affects intra-community trade—and that is the only line we accept as an inhibition of our powers."

About his personal ambitions he remains reticent. However, observers have tipped him for either a more senior post in the next Commission, in January 1989, or a return to Irish politics. Meanwhile, he will be a force to be reckoned with in EC politics for some time yet.

Spycatcher: a new twist to the plot

JUSTINIAN

SPYCATCHER continues to capture the legal headlines. The latest judicial pronouncement in the protracted litigation over the attempted banning of the publication of a book by one of the British Government's former secret service officers has provided an entirely new twist to the legal contortions. The majority of the Court of Appeal of New South Wales—chiefly in the shape of the reasoning of the court's radical and liberal president, Mr Justice Kirby—has held that the Australian courts cannot entertain the British Government's action. Hitherto, the central point at issue has been whether the flood of material that has been seeping into the public domain, both here and abroad, has drowned any concept of confidentiality that attached itself to the uncovered secrets of MI5.

There has long been a rule in the English common law (in this respect inherited in its entirety by the Australian courts) that the court has no jurisdiction to entertain an action for the enforcement of a "penal, revenue or other public law." The rule reflects the principle of territorial supremacy, which is fundamental to the community of nations. What is claimable in one nation's courts may not find instinctive acceptance in another country's courts. Courts abroad will refuse to enforce any claim which, in their view, is a manifestation of a foreign state's sovereign authority. By the law of nations such claims are assigned exclusively to their domestic forum. How does this ruly apply to the British Government's private law claim to remedy the breach by a Crown servant of his obligation never to reveal the secrets acquired by him in the course of his public duties?

Crimes are considered as entirely local and punishable exclusively in the country where they are committed. "Penal law" is a law which imposes punishment for an offence against the state. It is a criminal law and not merely a rule imposing liability on a wrongdoer, which is not limited to the damage suffered by his victim. Had the British Government's claim arisen out of an alleged breach of the Official Secrets Act, there would have been no question of the Government trying to enforce a breach of it against the publishers of Mr Wright's book in Australia. If Mr Wright and his publishers had been in the United Kingdom, the suggested continuing claim to confidentiality could be readily enforced in the English courts. But from the outset of the litigation the Government has disclaimed any attempt to enforce any breach of the Official Secrets Act. The claim has been unequivocally presented as a private cause of action either in contract for breach of confidence or for breach of a fiduciary duty.

Tax-gathering is not a matter of contract, but of authority and administration as between the state and those within its jurisdiction. As such, courts have never enforced foreign revenue laws. Foreign revenue laws, however, are recognised, although not enforced, and may be applied if relevant to an issue in the case. There has been, moreover, an inclination to modify the rule about non-enforcement of revenue laws. The liberal approach has been to acknowledge that, in the real world of international commercial activity, there is a need to move away from notions of sovereign authority.

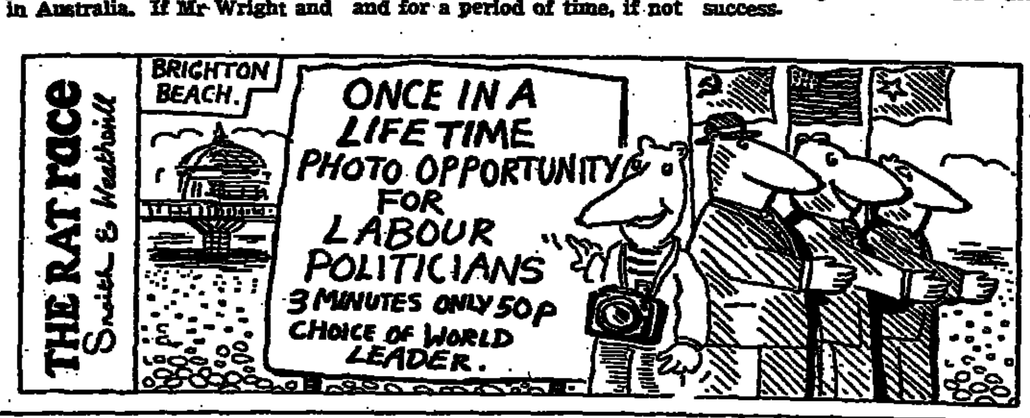
The exclusion of "other public law" reflects much the same approach. It is envisaged as covering such topics as import and export regulations, trading with the enemy legislation, price control regulations, and anti-trust legislation. In practice, however, the important topics falling within this category are those which authorise governmental interference with private property, whether in the form of requisition, nationalisation, or confiscation.

Given the liberal trend to whittle away the nationalistic element in the rule of non-enforcement, how did Mr Justice Kirby come to apply the rule in its full vigour? The judge acknowledged that there was no point in having a security service if it could not guard its secrets at least in some cases and for a period of time, if not indefinitely. That no doubt merely explains the motives of the British Government in bringing its proceedings in Australia. But it also helped, according to Mr Justice Kirby, to classify the nature of the legal proceedings.

The rule of non-enforcement of penal or other public laws operates against the direct and the indirect. And this case, so the argument runs, was an indirect enforcement of a penal law — the Official Secrets Act. The case was not that of a private claim by an ordinary foreign litigant to enforce against Mr Wright as a person breaching a private law duty of secrecy. It constituted, in effect, an impermissible effort by the British Government to exert in Australia the sovereign power of the United Kingdom against the former security agent.

Whatever else may be said, this line of reasoning is ingenious. It is also ingenuous, for at no stage in the proceedings before Mr Justice Powell did Mr Wright or his publishers seek to preclude the Australian courts from entertaining the British Government's action. The persistent disavowal by the UK Government of any question that it was seeking to enforce, directly or indirectly, its penal laws—the Official Secrets Act or any other part of its criminal or public administrative law—speaks volumes. The Government stated unequivocally that it was pursuing the claim of any employer to prevent its employee breaching the trust reposed in the latter. The trust happened to involve the ultimate in confidentiality, namely state secrets. Indeed, in the course of his judgment in the English proceedings to discharge the interim injunctions granted to the Government, the vice-chancellor, Sir Nicolas Browne-Wilkinson, stated specifically that the difficulty posed for the Government was the lacuna in the law, outside the Official Secrets Act, to protect its secrets in the civil courts by way of a private claim.

The High Court of Australia, the final court of appeal for that country, will this week decide whether to grant the British Government leave to appeal. If the new tack adopted by the New South Wales Court of Appeal demands further review, the British Government will feel no doubt encouraged that its defeat on this score gives fresh hope for ultimate success.



APPOINTMENTS

Lloyds Bank general manager

Mr Sydney Shore has been appointed general manager, corporate banking, at LLOYDS BANK from October 1. Mr Shore, who joined the bank in 1949, served initially in Essex and London and had a number of managerial appointments in central London before setting up the bank's business advisory service in 1976. After a period as manager of Colmore Row, Birmingham, he became regional general manager, West Midlands in 1981. He has held his present post as assistant general manager, corporate banking division, since 1983.

*

Mr Peter Broadbent has been made production director at RICHARDSON SHEFFIELD with resposibility for production, engineering, robotics and machine tool development. He has been manufacturing director at Brico, the West Midlands component supplier to the automotive industry.

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MANN EGERTON has made changes in responsibility at board level: **Mr Michael Gotts** remains as deputy chief executive, a role he previously combined with finance director. He will concentrate on developing the Mann Egerton portfolio of businesses through acquisitions, new franchise representation and new facility investments. **Mr Brian Back** has been appointed finance director in addition to his current role of company secretary. **Mr Paul Reynolds** joins the group as managing director of Gerard Mann, Mann Egerton's Mercedes Benz passenger car and commercial business located in Birmingham and Coventry. He was previously with the Lex Motor Group where he ran companies with volume and specialist car franchises.

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CARADON MIRA, part of the Caradon Group, has appointed **Mr E.J.Winstone** its managing director. He succeeds **Mr D.C.Arbon**, recently appointed deputy chairman and member of the Caradon main board.

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DOMINO PRINTING SCIENCES has made the following organisational and management changes following the acquisition of American Technologies Inc. The operating companies of the Domino Group are: Domino Amjet Ltd, Domino Amjet Inc, Domino Amjet BV and Domino Printing Systems Vertriebs Gmbh. **Mr Alan Barrell**, group managing director, becomes chairman of each of these subsidiaries and heads the group management board comprising the following appointments: **Mr Roger Dye**, formerly financial planning and control director at Trust House Forte Hotels, replacing **Mr Andrew Irvin** who has left the group; **Mr Howard Whitesmith**, managing director of Domino Amjet Ltd, **Mr Richard Losch**,president of Domino Amjet Inc, **Mr Jurgen Klingler**, managing director of Domino Printing Systems Vertreibs; **Mr Coert van Ee**, managing director of Domino Amjet BV, and **Mr Selwyn Image**, divisional director, group planning and development.

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At QUEENS MOAT HOUSES **Mr Robert Abson** has become operations director UK and joined the main board. He was operations director.

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The JIFFY PACKAGING CO has appointed **Mr Alan Johnson** as its sales director. He was sales manager for the northern division f Ambassador Packaging, another group company.

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CANADA LIFE has appointed **Mr Ian Gunn** vice president and general manager for the UK and Republic of Ireland. He has been the investment director of Canada Life in the British and Irish division for the last five years, but has latterly assumed responsibility for corporate planning in the division.

CONSTRUCTION CONTRACTS

£24m coal preparation plant

A joint venture between **DAVY MCKEE** and **CEMENTATION CONSTRUCTION** (a member of the building and civil engineering division of the Trafalgar House Group) has won a contract valued at about £21m for a new coal preparation plant at British Coal's Maltby Parkgate mine.

The project comprises the design, manufacture and installation for the plant and coal handling systems,including all civil works, mechanical and electrical engineering systems. Prior to completion, which is scheduled within 96 weeks, the plant will undergo full commissioning and testing.

The works cover four principal areas of operation. The first, a raw coal handling facility allows for pre-screening, stocking, reclamation and other handling facilities for raw coal from shaft side to the coal preparation plant. The coal preparation plant itself, the second main operation is designed to handle a number of processses which include dense medium, large and small, coal separation, froth flotation, clean coal concentrate filtration, water claification, tailings disposal, clean coal classification and product crushing and blending.

Thirdly, a control annexe which will contain all electrical switchgear and controls.This detached building also houses a central control room and staff amenities areas. The forth operation - a product handling system - will provide facilitiesto outload saleable products to road, rail or to stock. The structural work includes all the interconnecting gantries. Certain works will also be carried out for alteration of the existing rapid loading bunker to facilitate the unloading of CEGB fuel from the coal preparation plant and/or from stock via the bunker.

Mixed bag for Crown House

CROWN HOUSE ENGINEERING has received 15 mechanical and electrical engineering contracts valued at £30m. They include two large projects, each worth well over £4m, one an electrical engineering services installation contract for Marks and Spencer's new data centre at Stockley Park, the other a mechanical and electrical services contract for Grattan's new warehouse in Bradford.

The awards also include three contracts for leisure and entertainment complexes with a total value of £4.2m for Doncaster Leisure Park, the Aberdeen Leisure Centre and Cameron Hall Developments'Fantasyland, which is an extension of Tyneside's Metrocentre.

The remaining 10 projects, totalling over £10m, cover a variety of office developments, shopping complexes, hotels, computer production facilities and hospital extensions.

£4m orders for Booth

North Humberside-based civil and engineering contractors **C.R.BOOTH** has order books running at record levels. Major contracts, particularly civil engineering schemes, have pushed its current work in progress over the £4m mark. Projects include a wharf scheme for Croda Paints, a refracturation building for Anglia Oils, the Cockmoor service reservoir for the Yorkshire Water Authority, a pedesterianisation scheme of Hull City centre and Humber Dock Side/Hull Marina for Hull City Council, factory estates at Winterton for English Industrial Estates, road and sewer work in Hull, Bridlington,Howden and Beverley, for private developers and school refurbishments for Humberside County Council.

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M.J.GLEESON GROUP has been awarded a £11.5m contract for the design, development and construction of servicemen's homes at RAF Leeming, near Northallerton, Yorkshire.

Office development in City of London

A £15m contract for the construction of a seven-storey office behind part of an existing facade in King William Street, London EC4, has been awarded to **TAYLOR WOODROW CONSTRUCTION** by Ropemaker Properties.

The project entails constructing the shell and core of a 17,450 sq ft metre building without internal finishes.The structure will have a mezzanine and lower ground and basement levels, as well as a glazed internal atrium from the third floor to the roof.

The building will be of structural reinforced concrete up to ground level with a structural steel superstructure. The exterior fronting onto King William Street will be faced in Portland stone to blend with the partially retained facade. Other external walls will have a combination of granite and aluminium cladding.The work is scheduled for completion in February 1989.

Bypassing Newbridge

EDMUND NUTTALL has received a £9.38m award from the Welsh Office to construct the A483 Newbridge bypass. The two and a half year contract will commence on October 5.

The main structure on the 3.5 km bypass is the 348 metre long five-span viaduct over the River Dee. The voided piers of maximum height 50 metres are of insitu reinforced concrete and are founded on spread footings in deep excavations in the sides of the Dee Valley.The deck is an insitu post-tensioned concrete box construction built by the balanced cantilever method.

There are four other structures: a 40 metre span double cell post-tensioned concrete deck with cantilever abutments and two farm underpasses comprising reinforced concrete boxes 4.5 metres wide by 4.25 metres high.

In addition to the 3.5km of single 7.3 metre carriageway for the main bypass the roadworks involve about 1.3km of single 7.3 metres wide carriageway linking the bypass with the existing A5 trunk road.

Improvements to existing roads are required at Black Park Road and Low Barracks Road. The works include two at grade roundabouts, one priority junction and, at the northern end of the project, a connection to the Wynnstay junction which has been constructed as part of the Ruabon contract.

The route of the bypass and the Whitehurst link road passes over an area of previous mining activity and ground stabilisation works to treat abandoned mineshafts and shallow mineworkings, and other measures concerned with minimising settlement in the area of a backfilled opencast mine, are also included in the works programme.

THE IVORY COAST

Houphouet-Boigny's 'Ivorian miracle' challenged

Testing time for democracy

BY NICHOLAS WOODSWORTH IN ABIDJAN

IN ONE of the few significant challenges to government authority during his 27-year rule, President Houphouet-Boigny of the Ivory Coast last week made it clear that his country is not yet in a position to accommodate the rough-and-tumble of multi-party opposition politics.

"Do not make us choose between disorder and injustice ..." the 82-year-old leader said last week in the semi-official government daily "Fraternite' Matin." "I will not hesitate to choose disorder. One always has the time to redress an injustice, but when disorder takes over it is the life of the regime, the life of men, that is at stake."

'Framework in which Ivorians must evolve'

The stiff pronouncement follows the arrest earlier this month of union leaders for the *alleged embezzlement* of union funds. The real significance of the case, though, lies in the limits it defines to political *activity in the Ivory Coast.*

The Head of State has used the occasion to make a public affirmation of the nature of Ivorian democracy and warned that any threat to it would be severely dealt with.

"The PDCI (Democratic Party of the Ivory Coast) is the framework in which all Ivorians, as long as there is only one party, must evolve," the President stated. "In the future, there will perhaps be several parties, as is provided for in the constitution, but the precondition must first be realised: national unity." Any tendency in the opposite direction would be corrected. "There are those who wish to constitute themselves as a state within the Ivorian state," he said. "This is very serious. They shall be punished."

Such strong words are not often pronounced in a country seen by the world as a model of stable and pacific Third World development. From 1960 until the recent severe slump in the price of its major exports, coffee and cocoa, the Ivory Coast has pursued a course of uninterrupted growth under the tutelage of its former colonial master, France. By its policy of attracting foreign advisers, investment and loans, it has achieved a living standard that has made it the envy of its neighbours.

But the "Ivorian miracle," as it is sometimes called, has had as preconditions to success not only foreign economic domination but an unquestioning obedience to the political programmes of Felix Houphouet-Boigny and the party he founded in 1946. "Dialogue" and "consensus" are the key words in political life here, and rare is the congress address or policy statement in which they do not figure prominently.

No such words were pronounced in July at the 15th congress of SYNESCI, a national secondary school teachers union, and one of the few non-government-backed unions in the country.

SYNESCI has long been a thorn in the side of government. Until July a model of everything a public body in Ivory Coast should not be, it has over the years provoked considerable anger without *actually doing anything* it could be punished for.

While its often strident demands for more funds, more teachers, and more facilities have at least been tolerated by government in the past, it has of late proved itself particularly irksome by its call for the reform of a policy which permits only 5 per cent of students entering secondary school to qualify for university entrance. SYNESCI sees such a reform as a move that would allow less privileged sections of the population greater opportunity. The Government, on the other hand, can only think of the effect of such a policy on its plans for future economic and political stability. The prospect of large numbers of unemployed and frustrated university graduates—perfect candidates for leftist activism—is not one the Ivorian Government likes to contemplate. Balla Keita, *Minister of Education*, made the message clear last year when he warned SYNESCI members not to allow classrooms to become "*laboratories for destabilisation.*" SYNESCI was effectively muzzled in July when dissident factions within it removed its executive council *from power* by a political sleight of hand.

According to its former secretary-general, Laurent Akoun, now in prison, SYNESCI was the object of an illegal takeover condoned by the Government. In his version of events, the congress was physically disrupted by a pro-Government union faction which forced its suspension. After the executive had departed, he claims, this same group voted itself into power. Government approval was later implicitly given by the attendance of eight ministers at the closing ceremony.

To prevent the new executive from taking immediate control, Akoun appropriated union property and funds. The new executive replied by filing an embezzlement suit against the old leadership, and since then the matter has been an affair of state.

Buffeted by the winds of economic reversal, by plunging commodity prices and an unpayable $8.4bn debt, Felix

'Our country has a sense of measure'

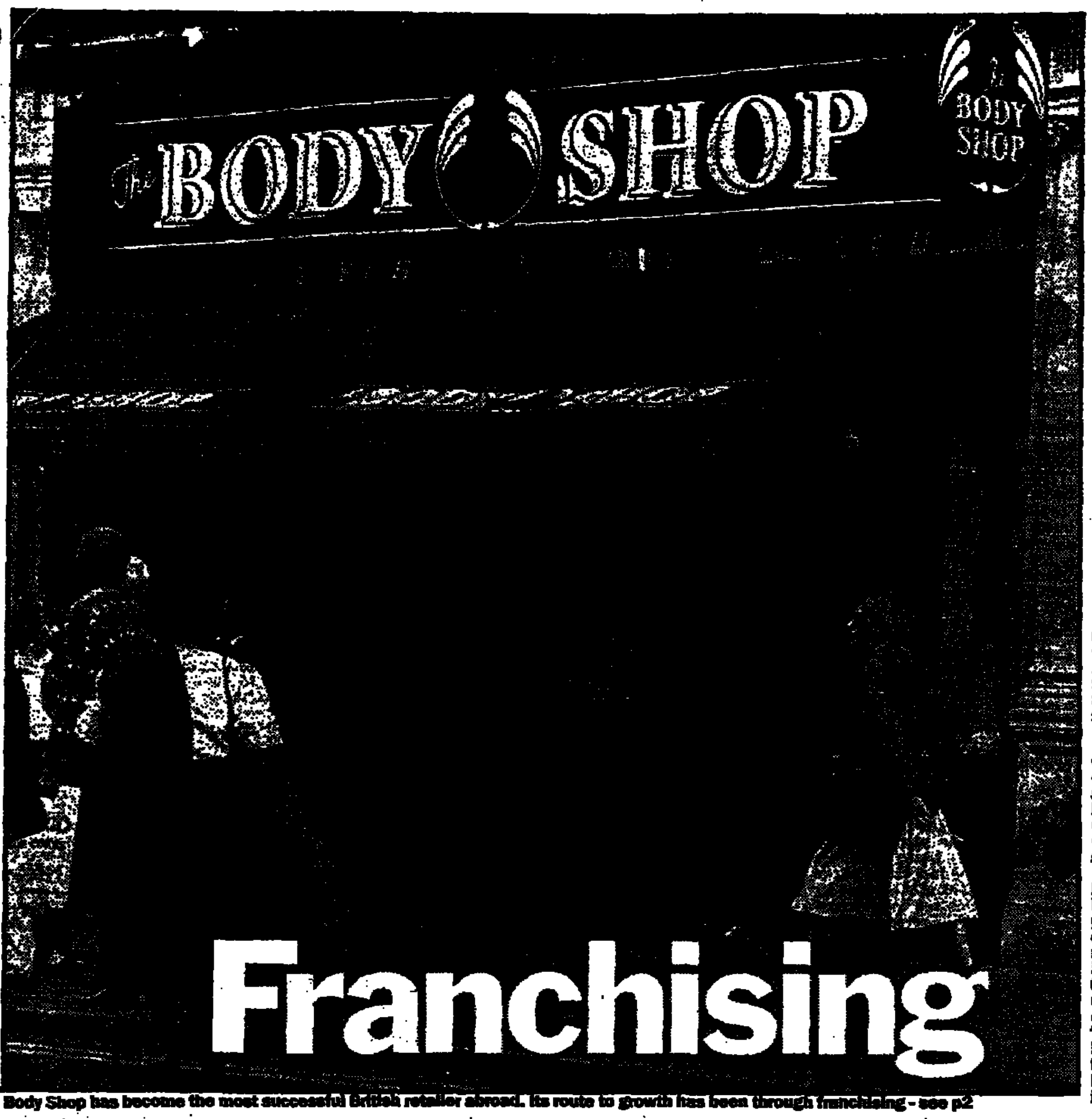
Houphouet-Boigny remains nonetheless calm and in full control in the last years of his reign. *He is confident in the* face of this latest threat. "We will see what happens," he said. "Our country has a sense of measure."

Despite mediation attempts by the African Association of Jurists, the imprisoned leaders, who claim to have the continued support of the better part of SYNECY, have vowed to fight to the end. Their trial, and the possible disruption to the beginning of the school year next month, threaten to give Ivorian democracy one of its severest tests yet.

FINANCIAL TIMES

SURVEY

Franchising faces a more optimistic future than was the case a year ago. The threat of unwelcome EC legislation has receded, and the industry's main trade body has set about putting its house in order after spectacular collapses. Survey by David Churchill



Body Shop has become the most successful British retailer abroad. Its route to growth has been through franchising - see p2

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Growth and a cleaner image

THE UK franchise industry can look forward with rather more confidence to next month's National Franchise Exhibition at the Kensington Exhibition Centre in West London than was the case a year ago.

At that time, the industry was still reeling from the shock induced by the collapse of the Young's Franchise Group and the poor publicity for its La Mama fashion franchise operation. The Young's debacle (although it is now trading normally under new owners) seemed to leave the British Franchise Association - the industry's main trade body - uncertain of how to cope with the industry's problems.

As if this were not enough, hanging over the whole franchise movement was the legal uncertainty caused by the European Community's competition rules which could have severely hampered franchising's growth.

Not surprisingly, the problems facing franchising a year ago were causing concern in Whitehall and civil servants were exploring with ministers the possibility of legislation to improve franchising standards.

But now the outlook for franchising is far more optimistic.

There have, for example, been no further spectacular collapses to mar franchising's image. The BFA, moreover, has acted in a number of key areas to get its own house in order - largely through tighter controls of members and a new code of ethics - as well as making new efforts to represent individual franchisees and not just franchise companies.

The European Commission has also made its long-awaited ruling in favour of the existing franchising format in Europe - and the UK Government appears to have backed off for the moment from bringing in new legislation to protect franchisees.

It would be wrong, however, to suggest that franchising in the UK remains without problems. The growth of the sector in the 1980s clearly continues to attract companies which have neither the commitment nor the resources adequately to franchise their business.

Nor is franchising immune from attracting the crooks of the business world and, unfortunately, these people seem to find a ready market in individuals willing to part with their savings to take up a rather dubious franchise operation.

"Investors should be aware of the hype surrounding the now fashionable franchising industry," warns Mr Andy Pollock, franchising manager at accountants Arthur Young.

"They should not rush into a franchise but should take the same level of advice and use the same criteria that they would for investing in any new business."

Mr Tony Dutfield, director of the BFA, also points out that "obviously some people are not suited to running their own business but I don't think the percentage of unsuitable candidates is dramatically different than in the past."

The BFA's strategy is to ensure that prospective franchisees evaluate for themselves whether they are well-suited and have the qualities it takes. "This goes back to the education process and is exactly why we are so committed to exhibitions, seminars, and conferences which can spell out to people exactly what is entailed."

What exactly is franchising? In one form or another it has existed for centuries (the brewers' tie was an early form of franchising) but now it is the "business-format" type of operation which is most commonly associated with franchising.

Business-format franchising as a concept originated in the US and includes not only a trade name but a complete marketing policy, including packaging, design of shops, and other promotional support.

Franchising is not an easy concept to define. The BFA's definition of franchising says it is "a contractual licence granted by one person (the franchisor) to another (the franchisee)". This licence, says the BFA:

- "Permits the franchisee to carry on a particular business under a specific name belonging to or associated with the franchisor
- "Entitles the franchisor to exercise control during the period of the franchise over the manner in which the franchisee carries on the business
- "Obliges the franchisor to provide the franchisee with assistance in carrying on the business
- "Requires the franchisee periodically, during the period of the franchise, to pay to the franchisor sums of money in consideration for the franchise, or for goods and services provided by the franchisor to the franchisee."

Accurate statistics on the size of the franchise market have not in the past been readily available. However, last year the BFA and National Westminster Bank sponsored a special survey - carried out by Power Research Associates - which indicated that franchising is now big business.

"The franchising industry should get its rightful credit as a strong contributor to wealth and employment creation in the UK with over 93,000 full-time jobs created and total sales from franchising outlets in excess of £2.2bn," says Mr Desmond Cook, chairman of the BFA. Total employment in franchising, including part-time workers, is 150,000.

This represents a growth of over 400 per cent in turnover and 180 per cent in employment over the past five years and gives projected sales of £6bn by 1991.

An updated report from Power Research is due to be published tomorrow.

The BFA's Mr Dutfield, however, is reluctant to oversell the growth of franchising. "Progress is steady and on course to grow in line with our estimates," he says. "On the one hand I wouldn't say it was going away like a rocket but, equally, it would be fair to say that it is maintaining its momentum."

The UK, however, is still some way behind the US and other European countries in its commitment to franchising. The US has seen a particularly rapid growth in franchising over the last 30 years, so that now over a third of all retail sales are carried out by the franchising method. Total sales through franchising in the US are estimated at £94bn, compared with £11bn in Canada and £6bn in France.

The Power survey last year revealed that the UK had some 440 business format franchise systems, with an average number of franchised units per system of 45. Average annual sales per franchise unit were £113,000.

Spurring on the growth of franchising in the 1980s has been the changed economic and political climate: "The present economic and political environment has created the mood for individuals to try out their entrepreneurial skills by starting up their own business," points out Arthur Young's Mr Pollock. "This means that any company looking to expand will find that the franchising option is viable because there are so many willing and able franchisees."

Growth in franchising has been encouraged by two other factors. One has been the change in life-styles which has prompted increased demand for companies offering service and convenience - such as the new US-style convenience stores which are ideal for franchising.

The other factor has been the greater involvement of the clearing banks and other financial institutions to provide not only funds but specialist advice to both franchisors and franchisees.

Mr David Acheson, a former chairman of the BFA and now a franchising consultant with the Stoy Hayward accountancy firm, also believes there is greater realism among companies who want to expand through franchising.

"They have to realise, however, that it's not a short-term option but something which will affect their whole company in ways in which they may not realise at first."

But, he points out, senior executives are coming to see franchising as one marketing and financial option in their expansion plans. "We don't say that the only way is franchising," he says. "We look at the company's needs and options and it may be that they would be better off raising finance on the stock market rather than going via the franchise route."

Mr Acheson is a member of the Franchise Consultants Association, a body set up, among other things, to help weed out people calling themselves consultants who try to find franchisees for franchise companies. Both the BFA and the FCA are fundamentally opposed to the sale of franchises by intermediaries. "The only way in which franchises should be sold is by the franchisor himself by direct discussion and negotiation with the franchisee," says the BFA and FCA in a joint statement.

Another area of concern that has been overcome in the past year has been the attitude of the European Commission in Brussels. The EC decided earlier this year that franchising could be exempted from certain aspects of the competition rules in the Treaty of Rome. Draft regulations from the EC means that franchise agreements - with some exceptions - cannot now be challenged under EC regulations outlawing market sharing and price fixing. The move has been widely welcomed throughout Europe's franchise industries.

Optimism, too, has been generated by the number of new companies which are beginning to consider franchising. "More and more companies operating in traditional forms of business such as Bally Shoes, Clarks, and Sketchley are entering the franchising arena," points out Mr Dutfield from the BFA.

The Abbey National building society, moreover, has plans to franchise its Cornerstone estate agency chain next year. Other major UK companies, especially in the catering sector, are expected to announce large-scale franchise ventures within the next few days. The 14,000 estimated visitors to next month's National Franchise Exhibition will have plenty of food for thought this year.

How to decide whether to go for a franchise

First ask some searching questions

THE TYPICAL would-be franchisee is male, aged around 40, has been employed in a white-collar job, and used mainly personal savings to finance his first franchise operation.

That picture, while accurate according to the relatively meagre research into what comprises a franchisee, can still be very misleading. Franchising in the 1980s has caught the imagination of many would-be entrepreneurs as the "safe" way of running their own business. This means that there are people from all types of backgrounds and aspirations who have joined the franchise system in recent years.

"It is quite possible that as many as 50 per cent of franchisees would not otherwise have become self-employed were it not for the franchise format," points out Professor John Stanworth, director of the small business unit at the Polytechnic of Central London.

Franchising offers most of the advantages of running your own business - such as independence and job satisfaction - without many of the drawbacks which result in such a high failure rate for small businesses. Franchise operations clearly fail as well, although the rate is said to be less than that for business as a whole.

Moreover, taking on a franchise with one of the more reputable and well-established franchise operations, and raising finance through a clearing bank, usually makes the potential risk less. Neither the banks nor established franchisors want their franchisees to fail, so their screening procedures to weed out those unsuitable are fairly rigorous and are becoming increasingly sophisticated.

But they are not foolproof, as the failure of several franchise operations over the past couple of years have shown. The most spectacular was the collapse of the Young's Franchise Group - significant because it was run by a former chairman of the British Franchise Association. (Young's was subsequently bought by Mr Cyril Spencer and is now trading normally.)

The Young's collapse sent shock waves throughout the franchise world, although many now see the positive advantages it has brought in bringing home to franchisees and franchisors that the franchise formula is not all plain sailing.

If you are thinking of taking up a franchise, probably the first step is to ask some searching questions about why you want to do it. You have to try objectively to assess your own motivation: whether, for example, you have the emotional stamina to work long hours to establish the business, and whether you can cope with the lack of security that working for a salary from a large company can provide. Will your family, moreover, share your enthusiasm for the new way of life?

Would you mind working unsocial hours in a fast food outlet or being *constantly on call for a* service business such as drain cleaning?

If you are satisfied that you have the motivation and access to the required capital, then you have to decide what sort of franchise will suit you. Do you mind working unsocial hours in a fast food outlet or be constantly on call for a service business such as drain cleaning? Or would you prefer to work more normal hours in a retailing franchise such as printing or clothes hire?

The amount of capital available also influences choice: £9,000, for example, would probably enable you to buy a low-cost franchise such as the ServiceMaster cleaning operation; £20,000 would be needed as a minimum for a retail franchise such as Prontaprint; while a food franchise such as Pizza Express costs a minimum of £150,000.

The next step is thoroughly to investigate the franchisor. "Franchises are not get-rich-quick schemes and so you should suspect claims of large, quick profits," says Mr Dick Crook, chairman of franchise consultants Caltain Associates and president of the Franchise Consultants Association.

"You should be wary of sets of annual projections which lack detail and omit such important factors as depreciation and the cost of money being borrowed."

The integrity of the franchisor, the ability of its management, and its financial stability are the key questions to consider.

Find out how long it has been in business and ask about its policies and plans for development. Consider also how the franchise is being offered. "Whenever you feel that you are being sold, back off," advises Mr Crook. "Franchises should never be 'sold'. Instead, there should be a developing dialogue between you and the franchisor on the question of you joining the franchise to the mutual advantage of both."

If possible, contact some of the existing franchisees of your own choice to see how much support they have received and what problems they have found. Be wary of a franchisor who refuses to give you names and addresses of those to contact.

For would-be franchisees wanting to get more information on franchising without any obligation, the national franchise exhibition being held next month at the Kensington Exhibition Centre will provide an opportunity to compare a number of possible franchisors.

"Investigate carefully, listen to advice, and make the final decision yourself," advises Mr Crook. "Then work hard to make your franchise a real success."

A way to achieve growth and find good managers

Route to expansion

WHEN Anita Roddick launched her first Body Shop in a small street in Brighton in 1976 she devised a machiavellian publicity stunt: a phone call to the local newspaper protesting at alleged attempts by neighbouring funeral parlours to block the shop and its name.

Now, some 11 years later, such tactics are hardly necessary for Ms Roddick, who is managing director of a company with 89 shops in the UK and 180 shops overseas in 28 countries. Body Shop, in fact, has become the most successful British retailer abroad with a larger presence overseas than giants such as Marks & Spencer or Mothercare.

Body Shop's route to growth was through franchising and now some 80 of its UK shops are franchised, with all the stores overseas franchise operations.

The company's franchise policy is "to encourage new blood into our group, to introduce new ideas and enthusiasm, while leaving our existing franchisees room to expand".

Ms Roddick takes this policy further: "Body Shop franchisees in the UK and all over the world are active in their local communities - many franchisees give talks to local schools and organisations, they provide work experience for young people, and they donate products to hospitals and charities."

A typical Body Shop franchise costs over £140,000. This is made up of £75,000 for shopfitting; £35,000 for opening stock; £15,000 for a quarter share of rent and rates; £9,000 for other costs; and £1,750 for the design fee. The franchise premium is £5,000.

Body Shop is typical of the way in which franchising has enabled many companies to expand their operations over the past decade or so. The main advantages are twofold. First, it enables a company with a successful operation to grow more quickly than could otherwise be achieved using its own capital. Second, the problem of finding highly-motivated branch management is overcome by the expedient of having the "manager" work for him or herself as a franchisee.

David Acheson, who is franchise consultant for the accountancy firm Stoy Hayward and has 20 years experience in franchising, says that franchising has other managerial advantages. "A company like Kentucky Fried Chicken would need one area manager to control five company-owned outlets," he points out. "With franchising, the ratio would be something like one area manager for 25 franchised outlets."

Other benefits to a franchisor, he says, include a better service to customers from more committed managers; outlets in areas where a company may not want to expand itself; and less head office administration.

But franchising as a means to growth can also have its drawbacks. Loss of management control over franchisees can sometimes lead to a harming of the image that a franchisor is seeking to establish.

The classic example of this was the Wimpy chain which, after many years of franchising, found that its market image was slipping because of poor-quality service in some outlets.

It was thus forced to buy back sites from franchisees and embark on a massive image-building campaign which included setting up company-owned sites to show how outlets should be run.

Wimpy, now part of United Biscuits, has some 116 counter service restaurants throughout the UK, a third of which are owned by the company.

The main purpose of these company-owned restaurants is to evaluate new equipment, new products and new management techniques. They are designed to develop the skills of both Wimpy's own employees and those of its franchisees.

A Wimpy counter service restaurant, based on prime high street sites, normally requires an investment of about £500,000. About 40 per cent of this comes from the franchisee, with the rest coming as a bank loan.

Wimpy runs training sessions for new and existing franchisees, most of whom come from outside the catering industry. As franchisor, it also provides substantial marketing support for the brand name; spending almost £3m this year on television advertising and support promotions.

Other problems faced by franchisors sometimes include the franchisee feeling that success is due more to his or her own efforts than those of the franchisor. This can lead to the franchisee resenting having to make regular royalty or other payments to the franchisor.

Communications can also become a problem, which can lead to conflicting objectives and less willingness by franchisees to co-operate in the running and development of the system.

Stoy Hayward's Mr Acheson points out that although profits potentially can be very substantial for both franchisor and franchisee, "do not think it is easy - it takes time, effort, and some money and the attitude must be right".

Companies that are considering franchising as a means of expansion need to take several factors into account. These include whether there is a sufficiently large market demand for a product or service, and whether it can easily be franchised.

In addition, the franchisor should consider whether or not the product or service has any staying power, or whether it is just a passing fad. Would-be franchisors should be clear whether effective and simple controls can be established and whether the company itself has sufficient depth of management to recruit franchisees and to develop the franchise.

If a company believes it has these qualities, then an experimental scheme should be launched for at least six to nine months, although industry experts believe a series of experiments for a year or more should be carried out.

While franchising reduces the cost of expansion compared with traditional methods, setting up a properly constructed franchise operation still costs money.

Mr Acheson adds a firm reminder to would-be franchisors: "The success of the franchisor must derive from the ongoing success of individual franchisees."

Oliver's

Eating cake

GEORGE DEWAR is the archetypal franchisee of the 1980s. Made redundant five years ago from a Kirkcaldy, Scotland, engineering company, Mr Dewar decided to use his redundancy pay to start up his own business.

But what sort of business should he choose? Clearly, the engineering industry was unlikely to return to growth in the short term, if at all. So he decided to look at the fast food business which was growing as rapidly in Scotland as elsewhere in the UK.

Mr Dewar's sister and her husband were already in the fast-food business, franchisees for an operation called Oliver's which had started in the Glasgow area in the early 1980s. Together with his wife Alison, Mr Dewar decided to apply for a franchise, too.

The concept behind Oliver's is to provide freshly-baked foods, ranging from sandwiches and baked potatoes through to cakes and pastries. These are available either to eat in the store's coffee shop or to take away. Characters from the musical Oliver are featured on crockery and throughout the product range.

Oliver's now operates some 30 outlets, of which 11 are franchise operations. Total turnover from the stores last year was £9m and the company was recently acquired by President Entertainments, which runs a number of restaurants and cafes in the south of England. (President itself was acquired late in August by the Pleasurama leisure group for £63m).

Armed with his redundancy money and life savings, Mr Dewar was able to find about 30 per cent of the £240,000 needed to set up an Oliver's outlet.

He prepared a business plan, with the help of Oliver's, and approached three banks - National Westminster, Barclays, and the ICFC. NatWest impressed him the most and he was able to obtain a capital loan from it, backed with a guarantee from the Government's small business scheme.

Although Oliver's offers a range of specialist services for franchisees, such as surveyors and interior designers, Mr Dewar first decided to go it alone when planning the new store. However, afraid of hidden costs from doing it himself, he eventually decided to use the expertise of Oliver's to set the store up.

Both Mr Dewar and Oliver's management came up with the classic store site in Kirkcaldy High Street: close to both British Home Stores and Marks & Spencer.

They opened in March 1985 with 24 staff, both part-time and permanent, who were given pre-opening training by Oliver's.

The initial product range was soon extended by Mr Dewar who found that in his area, demand for cream cakes was especially high. Points such as these, and new recipes and ideas, are exchanged by all franchisees at regular meetings at Oliver's head office.

Mr Dewar's business took off, exceeding sales targets by 20 per cent in each of the past two years. He is currently adding another 50 seats to his 120-seat coffee shop section.

Although a Wimpy fast food operation has recently opened next door to him, Mr Dewar maintains that this has not affected his business since they are in different markets. However, just to make sure, he is considering spreading his risk by opening another franchised outlet in Dunfermline.

George and Alison Dewar: extended range

Oasis

Fashion chain

RAISING finance to enable her to buy a franchise was one of the major hurdles faced by Jackie Brierton when she decided to open an Oasis fashion retailing franchise in Edinburgh two years ago.

"Although I had previously run my own retail business with some degree of success, the banks were still wary of the single business woman set-up," she recalls.

"It simply amazed me. There was at that time - and still is to a certain extent - a very large gap in the fashion franchise market. I was basically asking for an overdraft facility of £12,000 to open a fashion outlet in one of the most fashion conscious cities in the UK."

Ms Brierton, who had previously run her own newsagents shop in Scotland, decided that running a low-margin and long-hour-type of operation such as a confectioners-tobacconist-newsagent was not for her.

"I had always been interested in fashion and also thought it a good idea to become involved with a successful chain through franchising," she explains.

She therefore paid a visit to the 1985 National Franchise Exhibition where she met the Oasis team. Oasis is a High Street fashion chain with 30 branches throughout the UK which is keen to expand through franchising.

"There are few people offering a good, comprehensive, but flexible fashion franchise package," she believes. "I like the options that Oasis could offer me - they had a good style and image that I knew would work in the Edinburgh retail environment."

Ms Brierton eventually persuaded her bank manager to lend her the money and, with a total investment of £35,000, opened her first store in Edinburgh in an upmarket shopping centre development.

Earlier this year she opened her second store, this time in Glasgow, and now employs 18 staff (nine full-time) to run the two branches.

Jackie Brierton

FRANCHISING 3

Opportunities

New ideas all the time

AS FRANCHISING has grown in popularity during the 1980s, so the range of opportunities available has become wider and more diverse.

A few years ago, for example, VDU Services would not have existed - simply because there were relatively few visual display unit screens that needed cleaning. Now, with terminals in virtually every office, the cleaning of computer equipment is big business.

Similarly, Stained Glass Overlay is a franchise that caters for the affluence of the 1980s. Backed by the home improvements company Anglian Windows, Stained Glass Overlay is a process which creates stylish and colourful effects on plain glass or mirrors - just the thing for the home that has everything!

There are now several hundred companies offering franchise opportunities, with more being added all the time. While many new areas are being considered, most of the established franchisors operate in a handful of major sectors.

The best known is probably the fast-food business. Yet, perhaps surprisingly, many of the major companies in the sector have been fairly reluctant in the past to expand rapidly through franchising - a consequence of worries over market growth in what has proved to be a notoriously fickle and competitive market.

This reluctance to franchise may, however, be changing. McDonalds, for example, which is mainly franchised in the US, has kept to company-owned outlets in the UK for the past decade. But now it has just started carefully to offer franchises.

Kentucky Fried Chicken, another of the stalwarts of the fast food business but one which has welcomed franchising for many years, ran into some difficulties with a group of its franchisees earlier this year who were worried about changes within the group.

Burger King, which has more than 80 per cent of its 5,000 restaurants world-wide as franchise operations, is now keen to find new franchisees with an investment of £1m per restaurant to spend. It is actively seeking entrepreneurs and corporate organisations with funds, who believe that fast food is headed for fast growth in the late 1980s.

Apart from fast food, another well-established franchise sector is provided by car services. This sector has also had its problems over the years, in line with the fluctuating fortunes in the UK car market, but now appears to be more stable.

With over 18m cars on the road in the UK, there clearly remains plenty of scope for growth. Hometune claims to be the world's first and largest mobile car engine tuning service. Established in 1968, the company's franchisees tune more than 180,000 cars a year.

New services are those such as Autosheen, a car valeting service carried out at a customer's home or office. The company has increased its number of franchisees from 20 to over 100 in the past year.

The Mintel market research company, in a report on franchising, has pointed out that "where a car services franchisor has a sound business format, the franchisee can earn a reasonable living without making a fortune or, where a franchisee already has a strong established business, a franchise such as Budget-Rent-A-Car can represent a profitable addition".

Retailing is another major franchise area, although it is not as developed in the UK as in parts of continental Europe. The Benetton fashion chain, for example, has used franchising to spearhead its growth across Europe.

The convenience food sector is a prime target for franchising since it requires individuals prepared to work for long hours and provide a service. Late Supershops, for example, are convenience stores developed by the Co-Operative Wholesale Society. Franchisees can take advantage of the CWS's huge buying power to help sell at competitive prices.

Another convenience store franchise is Circle C, owned by a private company which has been in grocery retailing since 1958.

Other retail outlets provide a variety of services. The instant print sector - such as Prontaprint or Kall-Kwik - continues to grow rapidly, providing a service mainly to business customers.

Film developing outlets - such as Foto Inn - are also doing well, helped by the surge in tourism both at home and abroad.

New market opportunities are appearing all the time. With over 5m homes in the UK more than 60 years old, for example, the business opportunities in refurbishing property are a clear growth sector.

Gun-Point, for example, is a patented mortar pump and gun which repoints buildings. Its franchising scheme means that it now covers the whole of England and Wales. "There is a huge demand for this type of service and we are already having to turn away work until we get more franchisees," maintains Mr Ian Ruddlesden, Gun-Point's marketing director.

Tie Rack 'outshone the rest of the pack'

Boss with back-up

Lucy Brennan

LUCY BRENNAN was "bored, stuck in a rut, and needed a change" when she worked as an account executive in a London advertising agency. So she decided to start up her own business.

Ms Brennan, 26, decided that her lack of experience in running a small business meant that she should take up a franchise.

She researched various franchise opportunities, with assistance from the British Franchise Association information packs, and decided that "Tie Rack outshone the rest of the pack".

Tie Rack was founded in 1981 by Roy Bishko and, it is claimed, is the world's leading specialist retailer of ties and accessories for men and women. It has some 115 retail outlets, mainly franchised, with plans for a further 40 stores to be opened throughout the UK this year.

In June this year the company was floated on the stock market and was over-subscribed 85 times.

"The flotation has added further impetus to our expansion programme," says Ron Delnevo, Tie Rack's franchise director. "We are looking for people of all ages and from diverse backgrounds who are prepared to make a commitment to the success of the business."

Ms Brennan had a clear idea of what she wanted from a franchisor: a well defined marketing approach, a quality product, effective back-up, and acceptable margins to generate sufficient profit.

"After a few preliminary meetings we came to understand how Tie Rack could meet these objectives," she recalls. "What became even clearer was the amount of hard work needed in order to make such a venture viable for both parties."

The cost of Ms Brennan's franchise, which she took up in September 1986, was £52,000. She also has to pay Tie Rack 22.5 per cent of her turnover, out of which Tie Rack pays rent, rates and service charges. Tie Rack owns the lease of her shop in Ealing, West London.

"When you become your own boss, the buck stops with you and no one else," Ms Brennan points out. "Being a franchisee means the buck still stops with you on most things, but I also have the support and back-up of the Tie Rack network, drawing on their experience and expertise."

She believes that one of the most important factors in the franchisor/franchisee relationship - which can often be 'strained' - is an open communications system with encouragement to share news and views.

"Our Tie Rack area manager is our main linchpin to the central operation," Ms Brennan explains. "He or she becomes supporter, teacher, motivator, colleague, and often friend."

On a more practical level, Tie Rack's 30-day merchandise system is seen by Ms Brennan as a crucial element in making the franchise work. "We can return any merchandise not sold to the Tie Rack for full credit, and it enables us to merchandise our shop effectively without tying up our finances in slow selling stock," she says. "What is good stock for one area may not work for another, so stock rotation and redistribution is a benefit for the system."

Ms Brennan remains enthusiastic about franchising: "I love being a franchisee, although there are times when I hate it too - especially when I am installing the January sale at 11.30 pm on Christmas Eve," she says. "But then you love it when the doors open and people flood in to snap up bargains." Her success in the first year has encouraged her to plan setting up a second franchise soon.

Financing

Banks happier now to lend

WHEN FRANCHISING as a business format really started to take off in the early 1980s, would-be franchisees who went to their local bank manager often left the office empty-handed. The typical bank manager had no more idea of what made a good or bad franchise than the average person in the street, so it was hardly surprising that there was reluctance to advance funds on so skimpy a knowledge.

But all that has changed. As the small business operator has become the flavour of the decade in Mrs Thatcher's Britain, so the banks have joined the franchising bandwagon.

All the major clearing banks now have a keen interest in franchising, although Barclays, National Westminster, and Lloyds are probably the most active in their willingness to offer finance for new schemes.

NatWest, in fact, lays claim to being the first British bank to appoint a manager to deal solely with franchising way back in July 1981. The bank now has three franchise managers with a support team of four other staff.

"Our decision to enter the market has been vindicated by our high profile in the UK franchise market place and the £50m lent to franchisees and licensees since inception, virtually loss free," points out Mr Peter Stern, NatWest's senior franchise manager.

The NatWest approach is to provide detailed information packages as a basic guide to franchising for both customers and branch managers.

"We also want to be active in the market place and to use the knowledge that we gain to give guidance to formative franchisors," points out Mr Stern. "Our specific contacts include the British Franchise Association and the lawyers, accountants and consultants who have developed an interest in franchising."

Mr Stern makes it clear that "the bank does not warrant or recommend any specific franchise opportunity and is insistent that professional advice is sought before entry into any franchise".

The banks' major concern with advancing money to any small business venture - including franchising - is the high failure rate among small businesses in general.

An estimated mortality rate for small businesses in the first year would be of the order of 25 per cent, and for failures in the first five years, estimates suggest the failure rate varies between 40 and 70 per cent.

But of all new franchises, the worst estimate for one year failure is 10 per cent. Mr Allan Pope, Lloyds Bank franchise manager, claims that eight per cent is nearer the mark and that if non-members of the British Franchise Association are excluded, the failure rate in the first year drops to two per cent.

Banks' policies vary but as a general rule of thumb they will contribute anything between 30 and 70 per cent of the start-up money required - with the rest coming from savings, sale of assets, a second mortgage, friends or relatives.

Franchisees short of their own capital or security may persuade a bank to back them under the government's Loan Guarantee Scheme. This gives the lender a government guarantee for 70 per cent of the loan which can be claimed if the borrower cannot repay. The cost of the scheme, however, is less attractive than when it was first introduced in the early 1980s.

Barclays also is keen to develop its relationship with potential franchisors as well as franchisees. It sees part of its role as "assisting established businesses which wish to expand using the 'business format' franchise vehicle by ensuring that they fully understand the franchise concept, the importance of establishing a sound financial or legal structure for their franchise operation, and that they receive expert professional advice."

British Franchising Association

Ethics code is being updated

The British Franchise Association, the main trade body for the franchise movement, has faced an uphill task over the past decade in ensuring that franchising develops into a significant and stable business sector.

The association was formed early in 1977 to help weed out the "cowboy" operators who were beginning to give franchising a bad name, as well as establishing guidelines for new entrants to the industry.

In particular, the well-publicised pyramid selling scandals of the late sixties and early seventies did considerable damage to public awareness of franchising, even though pyramid selling was only a tiny part of the franchise movement.

The damage done, however, was enough to bring together eight large UK franchising companies to form an association of franchisors.

The association carries out a screening of new applicants for membership. This covers a complete check of the franchisor's financial background, an examination of its legal agreements with franchisees, its willingness to abide by the association's code of ethics, and whether or not there is a successful pilot franchise already operating.

There are two membership grades: those companies with full membership have been trading for some time and are established franchisors. Those companies which are still developing their franchise can become associate members of the association until they qualify for full membership.

From the original eight founders, the association now has over 100 members, of which some two-thirds are full members.

The association has not been without its problems in recent years, notably the collapse of the Young's Franchise Group under the control of Mr Edward Young and the particular problems faced by some La Mama franchisees, one of the Young's franchises. (Young's, incidentally, is now trading normally - apart from La Mama - under new ownership.)

Mr Tony Dutfield, the association's director, says that "over the past year there has been considerable activity within the association to ensure that the greatest possible safeguards are built in for the prospective franchisee".

He points out that the association "has improved its accreditation procedures and is now looking for more financial information, such as an auditors report on companies. We have also instituted internal audits for member companies renewing their membership."

One development over the past year has been the updating of the association's code of ethics which is now available in booklet form.

These guidelines cover all aspects of the franchise agreement, selection of franchises, resolution of disputes, and disclosure requirements for franchisor companies.

The ethics booklet also includes details of the new arbitration scheme for franchisors and franchisees, which is being administered by the Chartered Institute of Arbitrators.

Concerned with criticisms that the association is not worried about individual franchisees, the association has designated 1987 as "The Year of the Franchisee". Among its activities to help franchisees have been more face-to-face meetings with individuals through regional seminars.

"What the association is endeavouring to do is to ensure that prospective franchisees evaluate for themselves whether they are well-suited and have the qualities it takes," points out Mr Dutfield. "This goes back to the education process and is exactly why we are so committed to exhibitions, seminars, and conferences where we can spell out what franchising entails."

British Franchise Association, Franchise Chambers, 75a, Bell Street, Henley-on-Thames, Oxon, RG9 2BD; Telephone: 0491 578049.

MANAGEMENT

Disposable nappies

Celatose: soaking up the own-label market

BY GEORGE GRAHAM IN PARIS

WHEN CELATOSE'S entire production plant burnt down twice in the space of six years, many of its clients and competitors thought they had heard the last of the nappy-maker from Lille in northern France.

Starting again from scratch in the cut-throat disposable nappy market presented the intractable problem of how to make headway against the dominant brand names like Pampers and Peaudouce.

The marketing budget needed to defend Celatose's Coussineige nappy brand was beyond the company's means. Instead, Celatose fixed on a double strategy of concentrating on producing private label nappies for supermarkets and other retailers, and of expanding its sales outside France.

"We decided to treat the whole of Europe as our back-garden," says Pascal Motte, the chairman.

The strategy has been so successful that Celatose is now Europe's leading producer of private label disposable nappies, and fifth in the world. In its home French market it has a 21 per cent share, second behind Peaudouce but outstripping Procter and Gamble's Pampers or the Tendresse and Caline brands of Colgate, while in West Germany and the UK its share of the total disposable nappy market is also close to 20 per cent.

Besides three plants in France, Celatose now has two in Wales - the second, at Blackwood, near Cardiff, opened this year - one in West Germany, and a new factory opening at Barcelona in Spain.

Private label nappies, which accounted for only around 3 per cent of the French market a decade ago, now represent 32 per cent. Celatose produces two thirds of them, supplying major supermarket and hypermarket chains like Carrefour, Auchan or Promodes.

In the UK, the private label market has developed further and now accounts for 52 per cent of the 2bn disposable nappies sold each year - though the throwaway nappy only takes 64 per cent of the total nappy market in Britain compared with 98 per cent in France. Celatose supplies retailers like Mothercare, Sainsbury, Tesco and Asda.

Now 44, Motte became sales director of Celatose in 1967 and managing director in 1973, just before the second of the two fires that devastated the company's plant.

He believes that the boom in sales of private label nappies owes a good deal to the fact that Celatose stepped into the market offering retailers a product that met their needs.

"I believe that private label nappies could take a much bigger share of the US market if there were a well-focussed source of supply," the Celatose chairman says.

Private label products make good sense in the disposable nappy market. A French family spends FFr250 to FFr300 (£30) a month on nappies for each baby, an average of five changes a day for two years.

This sort of outlay - probably more than is spent on the baby's food - makes the buyer highly sensitive to price, and keen to save 15 to 20 per cent by switching to a supermarket's own brand.

A woman spending a tenth of this amount on sanitary towels is far less sensitive to price and more susceptible to brand marketing, comments Motte.

For the retailer, too, the private label approach can pay dividends. A supermarket can sell twice as many own label nappies per linear metre of shelving as it can of national brands, according to Etienne Thil, a marketing consultant working for Celatose.

In France, nappies represent FFr4bn a year of sales for supermarkets and hypermarkets, 1 per cent of their total turnover and the sixth most important product range after coffee, pastis-type aniseed drinks, cooking oils, tinned goods, biscuits and detergents.

To gain ground with private label nappies, however, the product has to provide the technical qualities that consumers need. Motte says a key factor has been Celatose's determination to design and build its own production equipment, which allows it to instal new machinery in around four months, a third of the time which would be needed if it relied on outside suppliers.

This has enabled the company to keep up with changes in nappy technology over the last ten years - the shift from the rectangular nappy to the knicker-shaped nappy, resealable waistbands, bottom-hugging elasticated contours, moisture-indicating logos which disappear when the nappy is wet, and the new "ultra" nappy which has the same absorption characteristics as traditional materials with 40 per cent less bulk.

"We only introduce innovations if they really bring an advantage for the user. Brand names battling it out with each other often add gadgets which don't really do anything functional," says Motte.

Celatose has also exported turnkey nappy factories to North and South America, the Near East and South-East Asia.

The results have shown up in Celatose's strong sales growth. From FFr59m in 1976, when it sold 96 per cent of its output under its own brand name, they rose to FFr1.15bn last year - FFr620m outside France.

This year turnover is projected at FFr1.35bn, with FFr800m outside France, and a further 18.5 per cent sales growth is expected in 1988.

Profits growth has also followed, from FFr10m net in 1984 to FFr17m in 1985 and FFr49.7m last year, but Motte warns that 1986 was an exceptionally good result that is unlikely to be repeated. Financial expenses were unusually low and the result includes exchange rate gains of FFR5m. The projections are for FFr30m this year and FFr40m in 1988.

This has been backed with a heavy investment programme, totalling FFr96m in 1986 and FFr131m this year, including the costs of the new Spanish plant.

Celatose's medium and long term debt burden is equivalent to 41 per cent of its equity base, but a further FFr45m capital increase, to be followed by the company's flotation next month on the second market of the Lille regional stock exchange, has improved this ratio.

Diversification is planned into adult incontinence products, where Celatose sees a potential European market of FFr16bn.

"There are 2m incontinent adults in France alone. We believe enormously in this market," says Motte.

But his eyes are really on geographical expansion beyond the base of France, Benelux, West Germany and the UK, where Celatose is already well implanted.

Besides Spain, which currently accounts for only 2 per cent of Celatose's turnover, Motte has ambitions in other European markets where the disposable nappy has not yet come of age.

In Scandinavia, for example, babies still use large numbers of rectangular pad nappies, which require an outer pant, rather than the all-in-one nappy which is Celatose's speciality and accounts for over 80 per cent of the French market.

Expansion may now require the acquisition of existing producers, whereas all Celatose's growth to date has been internally generated.

Beyond Europe, Motte is taking an original view of 1992, which has become an obsession for French companies and government officials keen to be fully competitive in time for the creation of a single internal market in Europe. By then, he aims to have a third of his sales outside Europe.

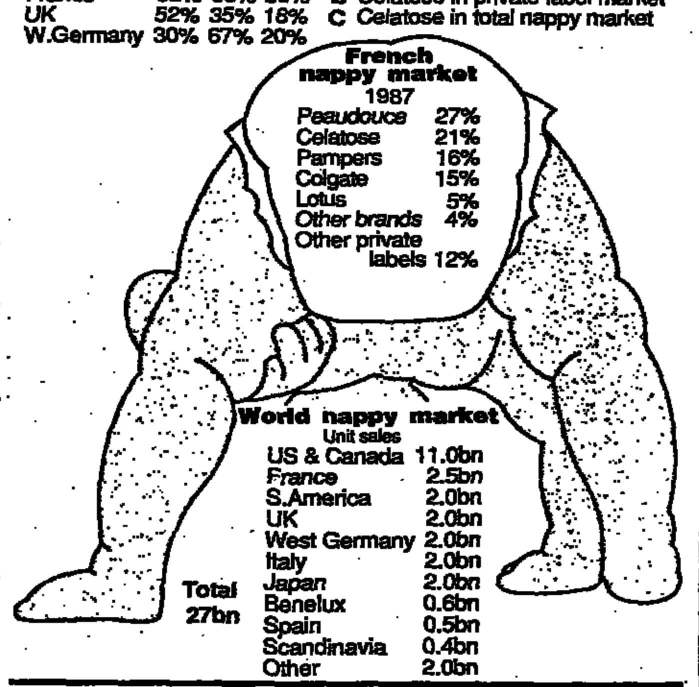
His immediate targets are Turkey and Syria, but beyond that lies the world.

"There are 135m births in the world each year, a potential market of 490bn nappies a year, but world sales are only 27bn nappies a year. In Asia there is a 2 per cent penetration of the potential market, in Latin America 5 per cent and in Africa only 1 per cent," says Motte with a gleam in his eye.

Private label share of market

	A	B	C
France	32%	63%	20%
UK	52%	35%	18%
W.Germany	30%	67%	20%

A Private label in total nappy market
B Celatose in private label market
C Celatose in total nappy market



Getting to grips with a decade-long dogfight

Dick Besser talks to Nick Garnett

DICK BESSER shares many things with a lot of other American managers. For one thing, he runs a US company in an industry which has been ripped apart by the Japanese.

For another, he thinks the Japanese are now on the slide and the time has arrived to repay the pasting they dished out.

"Okay, we got fat and lazy and that's a fact," says Besser. "But I tell you my company is going to be a real driving force in the next few years, you watch. We think the Japanese have over-extended themselves this time."

He is certainly going to have his work cut out. Besser is head of the turning machine division of Warner & Swasey, the heart of Cross and Trecker, the biggest machine tool company in the US.

Ten years ago, Warner & Swasey was a mini-colossus. Its machines held 60 per cent of the US lathe market. But when Japanese machine builders piled into North America at the turn of the decade, using the indigenous machine tool industry as a doormat, Warner & Swasey was swatted like a fly. Its share in the US is now a miserly 6 per cent.

"The Japanese developed super products, underpriced us and outsold us. The US industry just went to hell. We suffered badly and lost money."

Besser thinks the boot is now on the other foot, at least as far as his company is concerned. "The Japanese have got real problems. To get their costs down they are having to buy machine carcasses from Korea. Can you guess how much anguish they are going through to do that? Warner & Swasey has got a God-given right to have 30 per cent of the US lathe market. That's what my boss says. That's my mission."

The boss is Dick Lindgren, president of Cross and Trecker which purchased the company in 1984. The independent Warner & Swasey was acquired by Bendix seven years ago and then by the Allied Corporation in 1983 before it fell into the hands of Cross.

Besser only joined Warner & Swasey at the beginning of this year, having run the US operations of Schuler, the West German manufacturer of presses and coin minting equipment. He is new to the grim decade-long dogfight with the Japanese. That might account for some of the enthusiasm that bursts out every time he issues forth on the subject.

Working from Warner's base at Solon on the edge of Cleveland, Besser has given up his cruiser as a result of the job change. "There's no place for a boat here really. Anyway I'm too busy with the job."

Besser now spends a lot of time on aircraft. Last week he was in West Germany, followed by a rapid stop-off in London to announce that Warner & Swasey was resuming machine assembly in the UK again after shutting its plant in Halifax five years ago. "Travelling is no problem. I can carry all I need for a week in a carry-on bag."

Besser says he should hit his target in four years and dismisses any murmurs of surprise. "If we are not going to do it now, we never will."

He is probably right on that. The Japanese machine tool industry is hurting. The voluntary restraint agreement last year which cut exports to the US, coupled with the value of the yen, the current Buy America policy and the difficulties some Japanese makers have in meeting local content criteria for defence contract work, have all hit them. Only two of the top ten Japanese machine tool companies are believed to be in profit. Meanwhile Cross and Trecker has spent a lot of money developing new ranges of machines.

Besser is tired of hearing about the wonders of Japanese production technology. "Mazak (Yamazaki) have a plant in Kentucky. That plant is not all it's cracked up to be, I can tell you."

INSIDE EDGE

'The Japanese have got real problems. To get their costs down they are having to buy machine carcasses from Korea. You can guess at the anguish...'

Some of this sounds slightly specious. Warner & Swasey itself has a joint venture with a Japanese company, Murata, which makes some of Warner's machines; Besser concedes it does a good job. That does give Besser, though, an insight into the Japanese machine tool industry.

"Miti (Japan's Ministry of International Trade and Industry) is restructuring the Japanese machine tool sector. There is too much capacity. There is going to be a lot of fall-out there. In terms of allocations for the US, some small groups are going to get nothing."

Besser is a sports fan. He particularly admires the durability of Walter Payton, the Chicago Bears' long-serving running back. The new manager at Warner & Swasey will have to demonstrate a similar type of grittiness if his company is to achieve what it has set out to do.

THE ARTS

Falstaff/Covent Garden

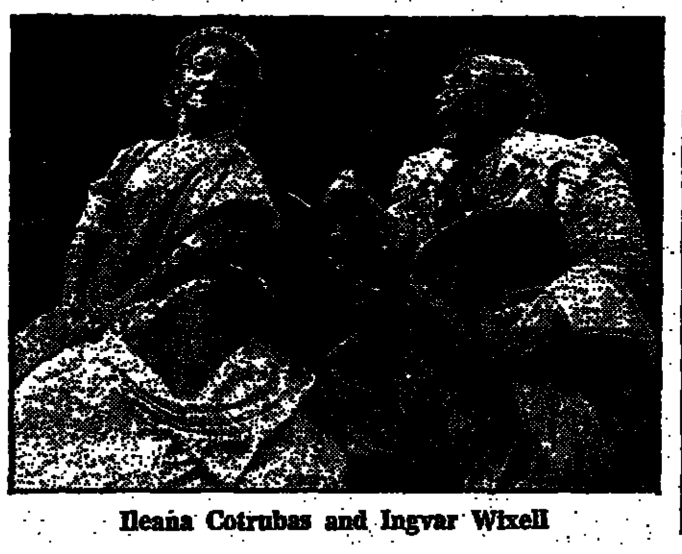
Andrew Clements

Only three performances of the scheduled revival of Verdi's *Falstaff* have survived the Royal Opera House strike. Ronald Eyre's staging has been shorn of some of its extraneous detail since it was first seen in 1982, and now moves more directly and with the potential at least of greater vitality. But little of that was realised in Friday's opening: a few isolated moments apart, it was a thoroughly drab occasion.

The root cause of that dullness was, alas, easy to establish. The conducting of Giuseppe Patanè—he takes over the run from Jeffrey Tate, who has been ordered to rest—managed to motivate neither singers nor orchestra. A highly promising cast was furnished with textures that lacked clarity, rhythms of uncertain intention. The simple lack of physical impulsion made an accurate correlation of stage *business and musical* description, on which any convincing account of this opera must depend, nearly impossible. *Little wonder that the majority* of the cast quickly abandoned the unequal struggle.

Just two singers convincingly overcame the impediments. Ingvar Wixell's Falstaff survived the shambles of the opening with increasing confidence, a *ceptive portrait, reflective* almost introverted to begin (and never to become a thigh-slapping caricature), gradually gaining in ebullience, and singing with increasing confidence and panache. Brigitte Fassbaender's Mistress Quickly would have graced the most fortunate production — a splendidly eccentric assumption, generously embroidered with witty detail, and sung (it hardly needs to be said) with the most scrupulous attention to verbal weight, colour and meaning. The confrontation of Falstaff and Quickly in the first scene of the second act was the only sustained passage in the opera to strike convincing dramatic sparks.

Of their colleagues there is rather less to be said. The women just outpointed the men in their commitment: an elegant yet here rather colourless Meg Page from Anne Howells, the busy, well grooved Alice of Ileana Cotrubas, and Barbara Bonney's quick, nicely girlish Nannetta. Against them were arrayed a low-key Ford (Jonathan Summers), stand-and-deliver Fenton (Alejandro Ramírez) and Pistol and Bardolph (Geoffrey Moses and Francis Egerton) whose comic patter was given absolutely no sense of purpose from the pit. Chances for some improvement tonight and on Wednesday.



Ileana Cotrubas and Ingvar Wixell

Architecture/Colin Amery

New life for London church

On Thursday London will hear the magnificent sounds of a great new organ sounding forth in the church on the Marylebone Road where Robert and Elizabeth Browning were married. It will be the herald of a new life for the church, a valuable precedent for the late 20th-century life of urban churches.

Not only does this magnificent church now have the opportunity of new musical life—in the crypt is an amazing new facility, the St Marylebone Centre for Healing and Counselling.

St Marylebone Parish Church, designed by Hardwick, occupies a crucial site at the end of one of Nash's main vistas from Regent's Park. The cupola surrounded by golden angels and the giant portico add a note of strong dignity to the overused Marylebone Road. Whoever decided to allow Westway to pour its load into the heart of St Marylebone made an error that has blighted a whole neighbourhood and cut off Nash's park for ever.

The new uses for the church will offer the potential of activities that could heal the wounds of civilisation—apart from the church services, physical and spiritual healing will be available from the new health centre in the crypt. It seems highly appropriate that the Rector of St. Marylebone should bring medicine and healing into the heart of a church that is itself in the heart of the medical area of the capital.

There is also a wonderful symbolism in the conversion of a crypt that has for so long housed the decaying remains of the dead into a centre for the repair of the body and the release of the spirit. The removal of the bodies of the late members of the parish of St. Marylebone into a cemetery in Surrey, was not an easy process—there is even a bureaucracy for the dead.

The architects, Nicki and John Braithwaite, saw that the crypt should be respected as an important brick vaulted structure. They also saw that to turn a house of the dead into a house for the cure of the living demanded an architectural treatment that would enliven and enlarge a dark, small space. They lacked one element — light.

To bring light from outside into the centre of some ten thousand square feet of crypt is an impossible task, and to have achieved as much light as they have on the sides of the new centre is a major achievement. The careful uplighting and the white washed brick, as well as the glow from the new stained glass roundels, allows for a calm almost watery glow throughout the centre.

There were interesting and difficult architectural problems. John Braithwaite was trained at Arup Associates, and worked on the Snape Maltings and the conversion of Holy Trinity Southwark into a rehearsal centre for the London Philharmonic Orchestra and the London Symphony Orchestra. He was no stranger to crypts and not unfamiliar with a mixture of music with other activities; part of the healing centre at St Marylebone is concerned with the development of music therapy. A new music therapy unit occupies a large room lit by skylights—carefully treated for acoustic control; already this has brought together priests, doctors and musicians in an unusual healing mission.

The plan of the crypt is an inspiring one. The patient, and this is an ordinary NHS centre, arrives at the main reception via a new entrance from the portico. Immediately on the axis of the entrance is a long vista to the small chapel. Sadly this is furnished in a rather uninspiring way with very conventional "church furnishing."

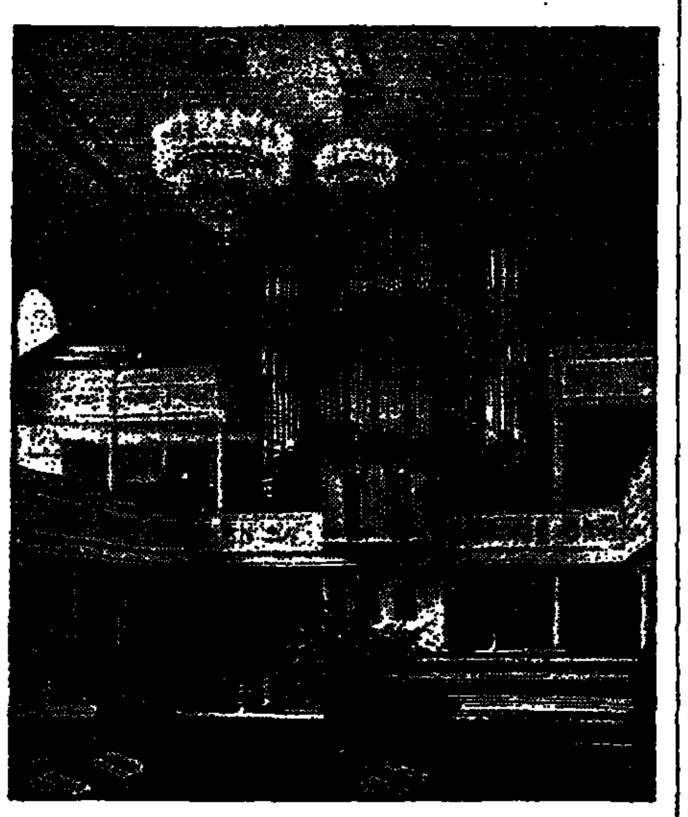
The former small vaults lend themselves well to the actual private use as counselling rooms, and they have been occupied by a selection of sympathetic organisations who are connected to the centre. To help finance the running of the centre a private magnetic resonance scanning image body scanner has been installed in a newly-made underground space. This has taken up space that was formerly under the car park. Although this will provide a useful income for the centre, there is still a debt, and appeals for funds continue.

The architecture of the new centre is conditioned by the old building but it has a clarity and serenity that is perfectly appropriate.

Opposite the church is the Royal Academy of Music, which has collaborated with the church in a rare venture. The installation of a major new organ and the joint use of the church for a new Academy course in Sacred and Liturgical Music, represents the kind of project that is good for churches and good for people.

The organ has been installed at the west end of the church, and alterations to the two tiers of galleries have been managed in a simple and complementary way. The organ has been built by the Austrian firm, Reiger Orgelbau, and is a magnificent instrument of a style that is unusual for London. There is a need for some further £100,000 to pay for it.

The combination of complementary uses and careful architecture makes this a model way to use churches in the inner city. A series of open days and concerts in the next few months will make the church available to the public and make it possible to see the activities of the healing centre.



Interior — including organ — of St Marylebone Parish Church

Leeds Piano Competition

Dominic Gill

Towards the final stages of an important international piano competition some years ago, the members of the jury were surprised to discover when the votes were counted that the most distinguished of their number, Arthur Rubinstein, had awarded one of only two grades to every competitor—either 20 out of 20, or zero. When pressed to explain his unusual marking system, Rubinstein replied: "It's simple. Either they are pianists or they are not."

The story may be apocryphal, but I like to think that it is true. It is in any case both a wise and a thoroughly characteristic remark: and it points to a fundamental flaw in the concept of competitive music-making that will not go away. Just as there are, above a certain level, no "better" composers, only different ones (Is Beethoven a better composer than Bach, Monteverdi better than Mozart, or for that matter Titain a greater painter than Caravaggio?) — so performers are not better, but only different. Subjectively, we may prefer Richter's Schubert to Schnabel's or Lupu's or Brendel's, and during the course of discussion we may also get some way towards describing why: but any attempt to rank those four pianists in prizeworthy sequence is an interesting but ultimately a futile (and therefore invidious) exercise.

Once this major reservation is understood and accepted, it can also be accepted that music competitions have been with us for years, and that they are here to stay. They are undoubtedly fun to attend, and they are often instructive; in the final stages they can be genuinely exciting. I have heard ex-competitors themselves argue that the rigours of a competition provide a useful and salutary challenge, more taing and more revealing than any they are likely to meet in the "real" professional world outside. And it cannot be entirely disadvantageous, after all, to the prestige of the piano or to the cause of music generally, that once every four years the City of Leeds mounts its now world-famous jamboree, recorded and broadcast worldwide and televised live on BBC2, to celebrate the king of instruments.

Given the fundamental aesthetic impropriety of the event, it makes far better sense in any case to treat a competition as a celebration rather than as a convention at which any kind of meaningful decisions are made. And as a celebration pure and simple, the Leeds Competition—or to give it its fully sponsor-conscious current title, "The Harveys Leeds International Pianoforte Competition"—does the piano proud.

After an absence of more than a decade from the lists at Leeds, the Russians have returned. This year's first prize-winner, the 29-year-old Vladimir Ovchinnikov, is a worthy successor to Dmitri Alexeyev, who won the Leeds first prize in 1975. The name has already been noted: Ovchinnikov shared the second prize of the Moscow Chaikovsky Competition five years ago with Peter Donohoe, and I have since heard private tapes of his playing which have marked him as an exceptional talent.

His account in Saturday's finale of the Rakhmaninov second concerto was masterly: broad, brightly coloured, exquisitely shaded. The tone is large, but never vulgarly forced, the technique is perfectly relaxed, and the manner supremely confident. Ovchinnikov was one of the only two pianists in the final six who seemed wholly at ease with an orchestra, and who listened intently from first to last, with a real contrapuntal ear to every strand of the ensemble.

The greatest miscarriage of justice in a competition commonly occur in the earliest stages. *I heard no reports this year of any truly notable exclusions: but there were the usual* expressions of astonishment and regret from ardent partisans, concerning the choice of finalists especially—two names most frequently mentioned as having been unjustly omitted from the list of finalists were those of the young Frenchman Jean-Efflam Bavouzet, whose effervescent semi-final recital made a profound impression on many listeners; and the 23-year-old West German Eckhart Heiligers from Hannover, in whose classical sensibility and poise some claimed to detect the renaissance of a new Schnabel.

These names, and many more from the earlier rounds, will doubtless claim our attention as the years pass. For my money, judged only on his showing in the concerto finale (the jury of course must take into account the playing during all four stages), the indisputable second prizewinner should have been the 25-year-old American Marc-antonio Barone, whose account of Rakhmaninov's Paganini Rhapsody showed astonishing *command and fluency—a marvellous performance*, sparkling with colour, shot through with all manner of delicate nuance, supremely confident and technically all but faultless. Barone was the other pianist who listened: like most Curtis graduates he has an instinctive feel for ensemble performance. His placing by the jury sixth and last of the finalists puzzled many who had heard his performance through all of the stages.

Hugh Tinney from Ireland gave a sensitive and finely drawn account of Beethoven's fourth concerto: strong, sincere and original, full of quiet but striking things, the last two movements especially shaped with uncommon poise and eloquence. He came fifth: although his performance was on another, more exalted plane entirely than that of the 18-year-old Russian Boris Berezovsky's of the same concerto. Berezovsky was placed fourth, and that for a young musician of such evident immaturity seemed an odd and indefensible choice: but perhaps the jury were swayed by his earlier exuberant recital performance of Islamey.

". . . world-famous jamboree to celebrate the king of instruments"

Judged from the concerto performances alone, the decision of the jury to award the competition's second prize to the Australian pianist Ian Munro was difficult to understand. His account of Prokofiev's third concerto was clean and capable, and had a nice fluent momentum—but it lacked all the same a certain sharp cutting edge, and had less rhythmic excitement than I should have liked.

Noriko Ogawa from Japan, placed third, also played the Prokofiev no 3, and although her reading was less secure in its entirely, and lacked a degree or two of sheer physical strength at the weightiest climaxes, she took more risks, and proved many more vivid, fiery points. How easily one falls into the competition trap — ranking two performances of such excellence even of the same concerto is a thankless task: I preferedd Miss Ogawas But Mr Munro's in its very different fashion was also stylish and accomplished. Rubinstein would have awarded both, without hesitation, full marks.

A final note: it was a special pleasure to hear real orchestral playing and real conducting at last in the Leeds Competition finale. The City of Birmingham Orchestra under Simon Rattle were on robust and demanding form.

The Cunning Little Vixen/Swansea

Rodney Milnes

By some strange quirk of fate, Charles Mackerras had not until last Saturday conducted *The Vixen* in the opera house, though his prize-winning recording is of course part of the Decca Janacek cycle. The Welsh National have now put that right at the Grand Theatre, Swansea: their new musical director is in charge of the latest revival of David Pountney's seven-year-old production, which one might be tempted to describe as a classic were it not still so utterly fresh (thanks to Pountney himself and his assistant John Eaton). M/C 24 8/8?

As on record, Sir Charles's approach to the score is highly individual. Just a few bars of the prelude, taken quite briskly and with dry string tone, serve to conjure up not a hazy, impressionistic, somnolent forest, but one where the insects that buzz so graphically in the orchestra seem to rule. Along with the astringent textures and crisp attack favoured throughout there is always the threat of violence, and more than just a threat in the Vixen's second-act narration and in the introduction to the third act. The playing is quite superb throughout, with the rasping brass in particular adding to the ever-present air of menace.

The tension between this distinctly darksome reading and the generally sunny, life-enhancing playfulness of the Pountney production works positively: the whole of Janacek's all-embracing vision is there. The only problem is one of balance. Maybe Sir Charles and his players have not yet quite gained the measure of the Grand Theatre's acoustics; but the singers had some difficulty in getting their words through the orchestral sound.

This problem was emphasised by the particular circumstance of using female voices—for the first time in this production—for the Fox, the Dog, and the Cockerel, thus ending (for all time, one hopes) the last hangover of the Felsenstein-Brod tendency in this piece. The roles were written for women, and incontrovertibly sound as if they were, and the potential artificiality of the convention is part of the division between the human and the natural worlds.

But tenors penetrate orchestras more easily than sopranos. Catriona Bell's vividly acted Cockerel was virtually wordless, and Dorothy Hoods Dog fared little better; most successful was Rita Cullis as the Fox, her warm, mettlesome soprano sitting more easily on the vocal lines tahn any tenor can, and her impersonation a little miracle of wit, one whose satirical content was noticeably sharpened by the travesti element.

Anne Dawson, the new Vixen, also had difficulties with her words in the middle of the voice, but gave a likeable and energetic performance. Among the smaller roles, Arwel Huw Morgan's younger-than-usual, ineffably melancholy Parson stood out. Barry Mora, every word emerging through his clear, closely focused and warm baritone, proved to be one of the best Foresters this production has yet seen. Was his weakness for alcohol total surrender or temporary release? Either way, no wonder the Mosquito reeled with shock after taking a blood sample.

Nash Ensemble/Wigmore Hall

Richard Fairman

A very special *entente cordiale* lives on. In the war years a long series of concerts devoted to French music was given at the Wigmore Hall under Free French patronage and influential figures from the musical salons of Paris, such as the composer Jean Françaix and the Princesse de Polignac (a wartime refugee in England), became familiar faces there.

In this first concert of a new series, entitled "Paris 1867-1987", a selection of pieces composed by members of their circle was gathered together again in the form of a typical *soirée*. The Nash Ensemble has compiled a variety of thematic series in recent years, carefully weighting the enjoyable against the didactic, but this must be the first time it has had such a profusion of elegant, witty and light-hearted music on which to draw.

The miniature Serenade for 12 instruments by Françaix, which set the series on its way, is all those things. What an irrepressibly cheerful score this is: light and frothy, each one of its sparkling little ideas set before the listener with ingenuous clarity and then quickly whisked away before it has time to seem trite or inflated—the sort of music that makes almost any other composer sound garrulous by comparison.

It was followed by Henri Sauguet's *La Voyante, a scène* for soprano and ensemble, which certainly has no shortage of words. The texts (a trio of poems on astrology and palmistry) were written by the composer, who has only himself to blame for providing intractable material; but musically there was much to enjoy here, too, with a score that is bright-eyed and wholly unpretentious. Phyllis Bryn-Julson was the *brilliant, rather hard-edged* soloist.

Finally, a couple of works by Stravinsky, qualifying as a Russian exile in Paris. There was a thoughtful and mellow account of the Sonata for Piano, given its first run-through at *the home of the Princesse de* Polignac, by Susan Tomes; and the Nash Ensemble under Lionel Friend, who had been *such a lively influence on the* whole programme, gave a well-characterised performance of *The Soldier's Tale*. A more delightful way to spend a Saturday evening is difficult to imagine.

Prizes for British broadcasters in Italy

British broadcasters have once again done outstandingly well at the Prix Italia, Europe's oldest and most keenly contested programme festival at Vicenza in Italy. British contenders took three of the actual Italia awards and two of the "special" or second prizes. Most of the glory has gone to the BBC which has won the Prix Italia for television drama with Simon Grey's black comedy *After Pilkington*, and the top prizes for both radio and television in the new ecology section.

Making a clean sweep for Britain in television drama, perhaps the most hard-fought category, ITV took the Special prize with *Scab*, Yorkshire Television's documentary-style drama about personal relationships within a family affected by the miners' strike. In the television music class Channel 4 won the Special prize with *Behind the Mask*, which analyses and exhibits the work of the contemporary composer Harrison Birtwistle. The prizes, both "Italia" and "Special," are worth L10m, about £4,500, but *considerably more in* prestige.

CHRISTOPHER DUNKLEY

Tippett commission

A new opera by Sir Michael Tippett, *New Year*, has been commissioned jointly by Glyndebourne, Houston Grand Opera and the BBC.

The world premiere will be in Houston in 1989 and the production, directed by Sir Peter Hall, will be given at Glyndebourne in 1990, followed by a television recording by the BBC.

"And Then There Were None"

And Then There Were None by Agatha Christie will open at the Duke of York's Theatre on October 7, directed by Kenneth Alan Taylor and produced by Bill Kenwright in association with the Nottingham Playhouse.

The cast will include Glynis Barber, Rodney Bewes, Geoffrey Davies and Jack Hedley.

Arts Guide

September 25–October 1

Music

PARIS

Scottish Chamber Orchestra conducted by Wilfried Boetchler, Ronald Brautigam, piano, Hakan Hardenberger, trumpet: Haydn, Mozart (Mon). TMP-Chatelet (4233 4444).

Orchestre National du Capitole de Toulouse conducted by Michel Plasson; Albert Roussel (Tue). Salle Pleyel (4561 0630).

Paul Kuentz choirs from Paris and Brest: Mendelssohn, Elias (Tue). Saint-Severin Church (4563 7956).

Saint-Saens: Requiem sung by the Roland de Lassus choir with the Orchestre Francais d'Oratorio conducted by Jean-Pierre Lore (Tue). Saint-Roch Church (4261 9326).

Paris Opera Choir and Orchestra. Mahler 2 (Thur), Paris Opera (4742 5750).

Orchestre de Paris conducted by Daniel Barenboim, Leila Cuberli, soprano, Jard van Nes, mezzo-soprano: Mozart (Thur). Salle Pleyel (4563 0796).

LONDON

English Chamber Orchestra conducted by Sir Alexander Gibson and Leeds piano competition winner, with Crispian Steele-Perkins, trumpet. Mozart and Haydn. Barbican Hall (Tue). (638 8891).

Academy of St. Martin-in-the-Fields conducted by Sir Neville Marriner with Arleen Auger, soprano and Keith Lewis, tenor. Haydn and Mozart. Royal Festival Hall (Tue). (928 3191).

London Philharmonic conducted by Klaus Tennstedt with Rosalind Plowright, soprano. Wagner and Bruckner. Royal Festival Hall (Wed).

NETHERLANDS

Amsterdam, Concertgebouw. Antoni Ros-Marba conducting the Netherlands Philharmonic, with Alexander Rudin, cello: Mozart, Haydn, Schubert (Mon, Tue). (71 83 45).

Rotterdam, Doelen. Recital Hall: 17th-century vocal and instrumental music (Mon). Glen Wilson and Stanley Hoogland, fortepiano quatre-mains: Mozart (Thur). (413 2490).

Eindhoven, Schouwburg. Radio Wind Ensemble: Dvořák, Janacek, Martinu (Wed). (11 11 22).

NEW YORK

Carnegie Hall: Tonkunstler Orchestra of Vienna. Alfred Eschwe conducting, Gail Dobish soprano, Manfred Geyrhalter violin, Raphael Flieder 'cello. Mozart, Beethoven, Weber, Haydn, Johann Strauss, Josef Strauss (Thur). (247 7800).

Juilliard Concerts (IBM Gallery): Steve Machamer xylophone recital. Bach, Tchaikovsky, Paganini, Ravel (Wed, 12.30). 56th & Madison.

Merkin Hall (Goodman House): New York Woodwind Quintet. Mozart, John Harbison, Malcolm Forsythe, Janacek (Tue); Kurt Weill Festival with the St. Luke's Chamber Ensemble conducted by Julius Rudel (Wed). 67th w. of Broadway (362 8719).

Kaufmann Hall: Ik-Hwan Bae violin recital with Jonathan Feldman piano. Stravinsky, Mozart, Chausson, Tchaikovsky (Thur). 1395 Lexington Av. (831 8603).

New York Philharmonic (Avery Fisher Hall): Sir Colin Davis conducting. Sibelius and Vaughn Williams (Thur). Lincoln Center (874 2424).

WASHINGTON

National Symphony (Concert Hall): Mstislav Rostropovich conducting. Toch, Mozart, Berlioz (Tue); Catherine Comet conducting, Alexis Weissenberg piano. Bernstein, Elgar, Beethoven (Thur). Kennedy Center (254 3776).

Philadelphia Orchestra (Concert Hall): Riccardo Muti conducting, Malcolm Frager piano. Ligeti, Weber, Beethoven (Wed). Kennedy Center (254 3776).

CHICAGO

Chicago Symphony (Orchestra Hall): Sir Georg Solti conducting, Joseph Golan violin. Bartok, Elgar (Thur). (435 8111).

TOKYO

NHK Symphony Orchestra, piano, Christoph Eschenbach and Tzimon Barto. All-Brahms programme. Yamaha's Arthur Rubenstein Centennial Concert. Hitomi Memorial Hall, Showa Women's College, Sangenjaya (Mon). (572 3141).

The Tokyo String Quartet with Hiroko Nakamura. Haydn and Dvořák. Suntory Hall (Tue). (235 1661).

Christoph Eschenbach, piano, Teiko Maehashi, violin. Bach, Beethoven, Schumann. Hitomi Hall, Showa Women's College, Sangenjaya. (Wed). (573 3588).

Shuji Tanaka, piano. Bach, Brahms, Rachmaninov, Chopin. Suntory Recital Hall (Wed). (573 3588).

Traditional Japanese Music: Nagauta song and dance from Kabuki. Tokyo Shoken Hall (Wed). (667 9211).

Theatre

LONDON

Antony and Cleopatra (Olivier): Peter Hall's best production for the National Theatre he leaves in 1988 brings this great but notoriously difficult play to thrilling life, with Judi Dench and Anthony Hopkins as battle scarred lovers on the brink of old age. Dench is angry, witty and ultimately moving. Best of the rest at the NT is Michael Gambon giving *his finest ever performance* as Arthur Miller's doomed longshoreman in A View from the Bridge; Juliet Stevenson in a fine revival of Lorca's Yerma; and David Hare's production of King Lear, Hopkins, a massive gnarled oak, which gathers force and more friends as it continues *in the repertoire* (928 2252).

The Phantom of the Opera (Her Majesty's): Spectacular but emotionally nutritional new musical by Andrew Lloyd Webber emphasising the romance in Leroux's 1911 novel. Happens in a wonderful Paris Opera ambience designed by Maria Bjornson. Hal Prince's alert, affectionate production contains a superb central performance by Michael Crawford. A new, meritorious and palpable hit. (839 2244, CC 379 6131/240 7200).

The Balcony (Barbican): Sadly dated and heavy-handed opening to the *RSC's Genet retrospective*, not helping to fight suspicions that the RSC, certainly in London, is stretched way beyond its creative capacities. *Terry Hands directs*, Farrah's set looks like a cheap pink brothel and the actors, a dull lot, clump around on high boots in big bulging *costumes*. (628 8795).

A Small Family Business (Olivier): Brilliant new Alan Ayckbourn play *about Britain on the fiddle in greedy* times, selling out to foreigners and keeping it simultaneously in the family. A comedy thriller on the large scale. Ayckbourn's own production is led majestically by Michael Gambon. Best of the NT rest remains King Lear and Antony and Cleopatra in the Olivier. A View From the Bridge in the Cottesloe. The new Brian Friel adaptation of Turgenev's Fathers and Sons is decent but dull in the Lyttelton. (928 2252).

NEW YORK

Fences (*46th Street*): *August* Wilson hit a home-run, this year's Pulitzer Prize, with James Earle Jones taking the powerful lead role of an old baseball *player raising* a family in an industrial city in the 1950s, trying to improve lot but dogged by his own failings. (221-1211).

Cats (Winter Garden): Still a sellout. Trevor Nunn's production of T.S. Elliot's children's poetry set to trendy music is visually startling and choreographically feline, but classic only in the sense of a rather staid and overblown idea of theatricality. (239 6262).

42nd Street (*Majestic*): An immodest celebration of the heyday of Broadway in the '30s incorporates gems from the original film like Shuffle Off To Buffalo with the appropriately brash and leggy hoofing by a large chorus line. (977 9020).

A Chorus Line (Shubert): The longest-running musical ever in America has not only supported Joseph Papp's Public Theater for eight years but also updated the musical genre with its backstage story in which the songs are used as auditions rather than emotions. (239 6200).

Me and My Girl (Marquis): Even if the plot turns on ironic mimicry of Pygmalion, this is no classic, with forgettable songs and dated leadenness in a stage full of characters; but it has proved to be a durable Broadway hit with its marvellous lead role for an agile, engaging and deft actor, preferably British. (947 0033).

WASHINGTON

Cabaret (Opera House): Hal Prince again directs Joel Grey as the seductive master of ceremonies in a Broadway-bound revival of the evocative musical of Berlin life in the 1930s. Ends Oct. 3. Kennedy Center (254 3770).

TOKYO

Les Misérables. After London and New York, now Tokyo and the Japanese version of the Tony-award winning musical. The cast was handpicked by the creative team of producer Cameron Mackintosh (from an astounding 11,500 hopefuls), then trained for nine months in a special "ecole" and rehearsed by director John Caird. Costumes, set, sound, lighting have been supervised by the respective original designer flown in from London. Toho's Les Misérables is a triumph. The best production of a Western musical in Japan, it differs little from the original London version. Convincing and moving, this top-quality production shows what can be achieved with proper casting and training. Sponsored by the cosmetics company, Shiseido. Imperial Theatre, near Ginza. (201 7777).

Saleroom/Antony Thorncroft

Tyninghame contents

The Earl of Haddington is selling one of his Scottish homes, Tyninghame, in order to shore up his other Scottish home, Mellerstain. Sotheby's is disposing of the contents of Tyninghame, which is in East Lothian, today and tomorrow and expects to hand over around £2m to the Earl who will use the money to pay off estate debts and to form the basis of a charitable trust. The house has been sold to *developer Mr Kit Martin*, who will convert it into flats.

The house is essentially Victorian, but with some early 17th *century fragments*. It is best known for its gardens. The contents are of solid worth rather than of outstanding importance. Not *surprisingly* there are many portraits among the pictures, including King James VI (who became James I when *he inherited England*) and his Queen by his court painter John de Critz, gifts by the King to the first Earl of *Haddington. They should* each make around £40,000.

English 18th century portrait painters are well represented. *The highest* price—in the region of £100,000—should be paid for a Reynolds portrait of the 9th Earl of Rothes, who married into the family. There are works by Gainsborough, Ramsay and Lawrence, with the latter contributing a fine portrait of George Canning, who was Prime Minister, briefly, in 1827.

Along with British portraits, stately homes usually blend in French furniture, and there is a good array at Tyninghame. This will be the first major furniture sale of the season and its fortunes will be closely monitored.

In contrast Phillips is selling a very costly doll on Wednesday. It dates from around 1690 and still has its original gold coloured silk dress. The estimate is £40,000 for this foot high wooden toy, probably made by an estate carpenter, but since it is in a slightly better condition than the Sotheby's doll of the same period which established a doll's record of £67,100 last March Phillips is hopeful of setting a new high.

Sotheby's hat its main toy and costume sale tomorrow and has great expectations for a tinplate toy car, made by Bing in Germany *around 1902, which is* valued at £9,000: a Jumeau triste bisque doll of around 1875, which might make the same sum: and for its 33 Teddy Bears made by Steiff, the sought-after name in this field. The oldest, a rare 1903 creation, largest of 1920, might find a new largest of 1920, might a new home at £5,500, because of its size—46 inches high.

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Monday September 28 1987

A weapon for Mr Lawson

COURTESY of the Government Statistical Service, a week can also be a long time in economics. Just the week before last, one item of good economic news followed another. The turbulence on which markets thrive was provided, however, when news was released on September 24 that the preliminary estimate of the current account deficit for August had tripled over the July level to £926m. Grateful markets promptly responded by dropping the FT-SE 100 index nearly 50 points before recovery.

The Chancellor, too, should be grateful. The news provides a further warning that the risks in the UK economy lie in excessive, rather than inadequate, growth of demand. Furthermore, the reminder arrives at one of the two times in the year when a major element of fiscal policy, public expenditure, is under discussion, so providing the Chancellor with a timely argument for overall fiscal restraint.

So far as the preliminary trade figures for August are concerned, they can be treated quite lightly, coming in the wake of the previous week's revised estimate that the current account deficit in the second quarter had been under £200m.

Safety valve

The Chancellor responded by ascribing the results to weakness in the world economy. This might, indeed, be a part of the explanation for the (seasonally adjusted) decline of ½ per cent in the export volume for June-August by comparison with the previous quarter. He could, however, have made the equally apposite comment (especially just before going to Washington) that the UK, one of the world's most creditworthy countries (owing, of course, to the Government's sound management since 1979), is doing its bit for global balance-of-payments adjustment.

In the presence of temporary domestic excess demand the balance of payments can be used quite appropriately as a safety valve, especially if the alternative is the less reversible one of higher inflation. Such a deterioration in the net asset position of the country is particularly appropriate if the deficit is investment-led.

As it happens, the volume of capital-goods imports declined in August vis a vis July, while those of motor cars rose by 20 per cent. More encouragingly, for the three months June-August, imports of capital goods rose at the same rate over the previous quarter as those of manufactures in general, by 8½ per cent.

What response, if any, is appropriate? The first and more obvious one is that since the principal danger remains inflation, any considerable weakness in sterling (not evident thus far) should be met by a willingness to raise interest rates. The apparent policy of shadowing the DM remains correct.

Fiscal target

To the extent that one is concerned about the current account, however, a policy of pegging the exchange rate is no help. High interest rates to support the exchange rate ensure that the current account deficit is financed rather than reduced.

Accordingly, the second appropriate response is a cautious fiscal policy, the reason being that, apart from an immediate effect on demand, there is the structural effect on the overall national rate of saving. Important for this view of fiscal policy is the longer term concern about how to finance the rise in investment that will have to be the next stage in the UK's growth. Such a rise in investment should probably not be financed exclusively by running down external assets via a greatly increased current deficit.

In addition, the fiscal target cannot be independent of the state of the business cycle. A year is a creature of astronomy, not of economics. A target for the PSBR of 1 per cent of GDP makes more sense over an economic cycle than for any single year and the growth expected for 1987 is now a little higher than at the time of the Budget and for the long term.

Accordingly, the Chancellor can argue that the proposals floating around for a £6bn increase over the previous target for expenditure in 1988-89 could imperil the hoped-for tax cuts in the next budget. Strict monetarism may have perished, but, to recall a favourite slogan, even rapid growth does not provide a free lunch for Ministers in charge of spending departments.

Privatisation, Italian style

THE ITALIANS are trying to redraw the boundaries between public and private sectors of industry, and they are doing so without the clarity of purpose or the ideological drive of the Thatcher Government in Britain.

Resistance to privatisation in Italy does not stem, as in the UK, mainly from a traditional view on the left that the state should control the commanding heights of the economy. It is rather that many of the state-controlled industrial and financial groups have links with one or other of the political parties and represent convenient sources of patronage and influence. Hence, too many industrial decisions, including key appointments, become enmeshed in politics. This politicisation of industry imposes a cost on the economy which is not wholly offset by the well-known dynamism of Italian entrepreneurs.

Political minefield

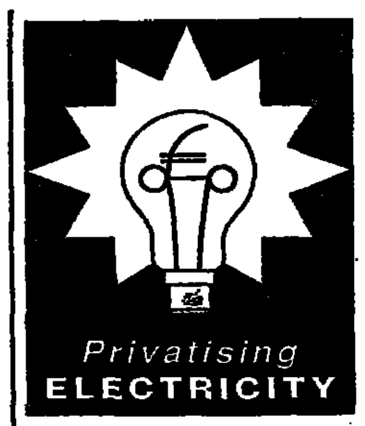
IRI, the largest of the state holding companies, is at the forefront of the move towards privatisation (a term which Italian officials prefer to avoid) and it has had some successes, notably the recent sale of the chronic loss-maker, Alfa Romeo. But it has to thread its way through a political minefield. Explosions are always possible, like last week's row over the appointment of a chief executive in the new telecommunications company, Telit, which brings together IRI's Italtel subsidiary and Telettra, owned by Fiat, Italy's biggest private-sector group. Fiat's motives in objecting to IRI's nominee are obscure, but the speed with which politicians of different hues have joined in the argument illustrates the pitfalls which can disrupt even an apparently straightforward piece of industrial restructuring.

International competitiveness

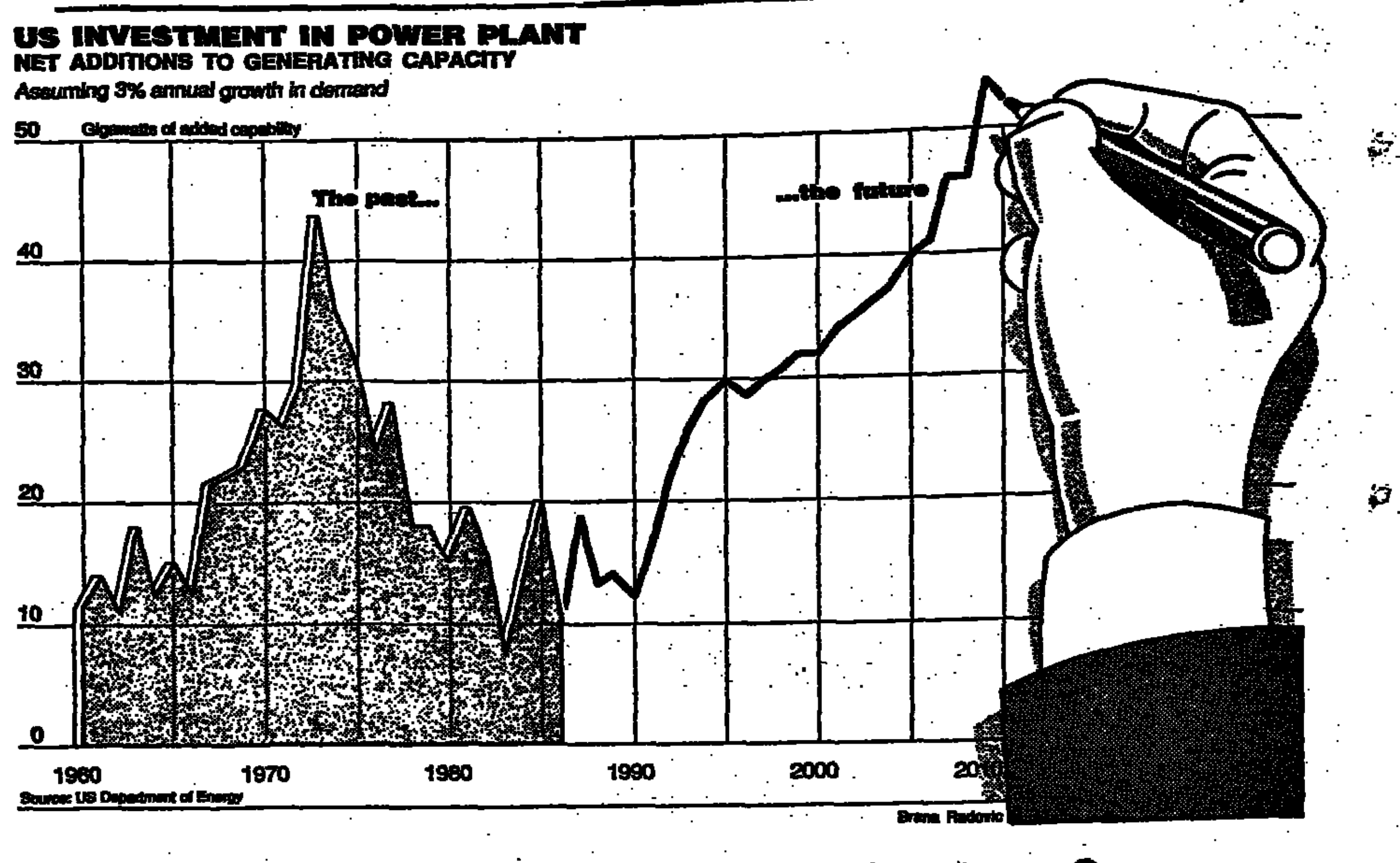
Both IRI and ENI, its counterpart in the energy sector, are reshaping their empires in a way which puts more emphasis on international competitiveness. This involves joint ventures with other Italian or foreign companies, as in telecommunications and electronics, and the sale of peripheral assets, like ENI's textile subsidiary, which more appropriately belong in the private sector. But each case tends to become a political cause célèbre, and there are other problems which Mrs Thatcher has not had to face. For example, the undeveloped state of the Italian stock market and of individual share ownership appears to rule out Thatcher-style privatisations designed to spread ownership of major enterprises through out the population. In some cases, the only available Italian buyers are to be found among the half dozen leading private sector groups. Thus, privatisation could lead to a further concentration of economic power in the hands of a few families.

Strong dose of liberalisation

The process of reducing the role of the state and of decentralising industrial decisions is bound to be gradual. It would be unrealistic to expect the present weak coalition Government under Mr Giovanni Goria to launch an ambitious privatisation programme for which no consensus exists. Mr Goria will have a hard enough task keeping his administration intact and dealing with pressing economic problems, including the public sector deficit. But there does seem to be a general recognition that Italy's industrial and financial structures need to be brought up to date and that privatisation is a necessary part of the modernisation of the Italian economy. The banking system, for example, is dominated by public sector institutions. A strong dose of liberalisation and competition is required if Italian banks are to play their part in the more open European market for financial services, which is beginning to take shape.



Max Wilkinson looks for lessons from the US



The blueprint is badly smudged

THIS SUMMER, as British ministers and officials toured the US in search of ideas for denationalising electricity, John Harrington, the US energy secretary, was warning private sector utility executives of the need to beef up investment and sharpen competition.

"There are large tough questions looming about meeting generating capacity needs," he told the annual meeting of the Edison Electric Institute, representing the private companies which account for the majority of America's $153bn-a-year (£93.3bn) electricity industry.

Mr Herrington described the need to replace some of the pervasive regulations with greater reliance on market forces. "Just as the competitiveness of the American economy relies on a healthy electric power system, the future health of the electric power system may well rest with our ability to put competition to work to assure the adequacy and efficiency of future power supplies."

Similar remarks could be used by reformers in Britain, who want to break up the large state monopolies which dominate the UK electricity industry and to reconstruct along the lines of the investor-owned utilities in the US.

However, although America was the birthplace — and for many years the showcase — of privately owned electric power, it is a mistake to believe that the larger private companies are either free or that they have recently shown much enterprise. As Mr Herrington's comments suggest, the US can provide only a smudged blueprint for those who think that the central aim of British privatisation should be to encourage a vigorous free market.

This is partly because of the size and diversity of the system in a country where the population is spread seven times more thinly than in Britain. In the US, many small power plants were built to serve towns and districts, following the example of Thomas Edison's first central power station in New York in 1882. There are still about 3,500 separate electricity companies in the US.

A steady consolidation of companies owned by investors has taken place. There are now 149 private utilities, many of them owned by 51 holding companies. This private sector was responsible for nearly 80 per cent of electricity sales last year. Many of the utilities are mainly concerned with generating electricity for their locality, in a pattern similar to that in Britain before the development of the integrated national grid 30 years ago.

Over the years American companies have developed closer relations with their neighbours, trading power over high voltage transmission lines which connect the states into three rather loose grids. In the more populated areas, utilities have combined into closer groups or power pools to achieve security of supply and economies of scale — the largest has more than 45 members. The pools can involve central control of members' power stations as well as minute-by-minute computerised billing systems between utilities trading power.

This system is dominated by the state regulatory commissions, which have to approve any price increase, and by the Federal Energy Regulatory Commission (FERC) which controls wholesale transactions across state borders. These regulations and the performance of the industry under them have been the subject of widespread complaint and pressure for a bold deregulation similar to that of the airline industry.

The problems were set out by the US Department of Energy in 1983, in a study entitled The Future of Electric Power in America, which said: "Public confidence in the electric industry and the regulatory system has deteriorated over the past 10 years as electricity prices have gone up. There is a growing perception that utility companies are not as well managed as they could be nor as well regulated as they should be."

Since the US's private electricity companies are subject to public scrutiny, it matters what people think—whether or not they are well informed. And this leads to the heart of the dilemma which those planning to privatise electricity in the UK must also confront: who should pay for the building of capacity for the future? Shareholders, consumers or, if costs can be deferred, future electricity users?

In the UK, one of the main criticisms of the Central Electricity Generating Board (CEGB) is that it has spent huge amounts from current revenues in the pursuit of bigger and better power stations, and nuclear prototypes, though its low return on investment would surely have forced a private sector equivalent to search for less capital-intensive options.

US utilities also built too many stations in the over-optimistic 1960s and early 1970s, and their record on building nuclear reactors to time and budget was abysmal. However, in the last decade, pressure from shareholders and consumers has brought construction of large plants almost to a standstill.

So at a time when the CEGB is confidently planning to step up its building programme, with four or five new nuclear reactors and a similar number of coal-fired plant, across the Atlantic, the planning of large stations remains torpid.

Although this does not present an immediate danger that the lights will start going out throughout the US, many commentators are suggesting that today's investment famine will require patch-and-mend solutions in a few years, which will lower the efficiency of the system and raise electricity prices.

The US Department of Energy has estimated that "annual electric bills could be as much as $18bn — roughly 12 per cent — higher by the year 2000 if utilities pursue strategies intended only to minimise their capital expenditures." Yet the task facing utilities is enormous: in 1983 the department estimated that to match an annual growth in demand of 3 per cent to the year 2000, investment of more than $1 trillion (million million) would be needed, a figure comparable with the US's entire external debt and three times the industry's physical assets.

The Administration's response has been to call for a loosening of Federal regulations and reform of the cumbersome Nuclear Regulatory Council. Beyond that, it has made limited efforts to encourage greater competition, with mixed results.

One experiment to allow utilities to trade bulk power without having to ask FERC to approve prices had only limited effect.

The better known effort to encourage small private "co-generators" through the Public Utilities Regulatory Policies Act of 1978 seems to have been highly successful. By the beginning of this year, private companies had filed applications to build 54,000 MW of small power plant, under a scheme which forces local utilities to buy surplus output at a price equivalent to the cost of generating it themselves.

Without knowing exactly how, the Administration would like to encourage a more open market mechanism for the building of power stations, in place of the highly restrictive approvals procedures of many state regulators. These generally allow a utility to recoup all reasonable capital costs plus a fair rate of return from its customers.

In recent years, the process of establishing what is "reasonable" has become more and more adversarial, with public interest groups taking on the utilities. The delays inherent in these "rate cases," measured typically in years, have reduced the overall effective rate of return on power stations and, therefore, the incentive to build.

It was in an attempt to avoid some of these problems that the British Government opted for a much simpler regulatory formula intended to keep utilities' costs below the inflation rate. But, in the long run, it is unlikely that prices can be regulated without taking a view of a utility's profit and performance. To achieve this, Britain may have to move closer to the American system, perhaps by emulating some of its openness and thoroughness, while trying to avoid the excessive litigation and the minutely detailed supervision.

In the US, some believe the answer is to reduce the need for regulation by increasing competition. As a result, utilities are facing pressure for "mandatory wheeling"—a legal requirement that owners of transmission lines should give a "right of way" to any private sector generator wanting to sell power direct to a third party (probably a large industrial company). This idea, which follows the installation of transcontinental gas pipelines, is a direct counterpart to the campaign being waged in Britain to open up the national grid to independent competitors.

However, the Edison Electric Institute has strongly opposed this idea on the grounds that electricity cannot be sent along specific transmission routes. It says a significant increase in their use for "trading" could cause congestion elsewhere to the detriment of other customers, who are using transmission for power-sharing exercises intended to minimise costs. This is similar to the arguments about system integrity being deployed by the CEGB.

Deregulation proposals have also been criticised on economic grounds. This is because modern electricity systems can reap considerable economies of scale, not only by building larger power stations, but also by integrating them into big systems which allow the costs of fuel, maintenance and spare capacity to be minimised.

Paul Joskow and Richard Schamalensee, of the Massachussets Institute of Technology, say in their book, Markets for Power, that the co-operation required in the most effective power pools would be difficult to reconcile with competition between generators. Since most utilities are now vertically integrated and regulated, they are not highly competitive, although they do trade. Sophisticated computer accounting in some pools functions more to apportion the benefits of co-operatin than on a competitive spot market model.

Even if distribution companies were to be demerged and extensive spot markets in wholesale power were established, Professors Joskow and Schmalensee argue that generation companies would lack the incentive needed to make long-term investments in plant. So, they believe, close relationships would soon be re-established through long-term contracts. They conclude: "It is clear that rapid and complete deregulatio of the electric power industry . . . would reduce efficiency and be politically unacceptable," though they do favour moves towards more competitive pricing and some opening up of wholesale markets.

Because of the huge differences, the US system should not be taken as a simple model for British privatisers, but there are some lessons to be learnt.

Perhaps the most important is the benefit of openness which, as Britain's Electrical Power Engineers' Association concedes, gives individual members of the public access to the decision-making processes. Although this can lead to short-termism, it has also made utilities more responsive to public preference and capital market pressures. This openness also allows comparisons to be made which can, in theory, galvanise the worst performers.

The other strength is the potential for innovation: regulators in some states have been able to encourage a range of sensible ideas including conservation, more flexible metering and the use of small private plants to top up a utility's supplies. In a monolithic structure like that in Britain, it is more difficult for such experiments to flourish.

Men and Matters

JOHANNESBURG, SEPT 27

A show of black power

THE spring rains have come early to the highveld this year and Johannesburg's northern suburbs are a riot of blossom. But it is a lot bleaker driving into the city from the south, past Soweto and the gold mine dumps. But Soweto too has its plush owner-occupied suburbs like Beverly Hills and Protea North and gentrification proceeds apace as thousands of lower income Sowetans take advantage of cut price sales of formerly rented matchbox houses.

Soon after purchase the small gardens start to sprout flowers and hedges, coachlights and brass knockers appear on the doors and builders descend to transform the old matchbox into a des.res. with all mod.cons.

Apart from managers of top of the league black football teams like the Kaiser Chiefs and the rising new class of black professionals the fastest growing section of the new black bourgeoise is that of the black taxi owners. With the Southern African Black Taxi Association (SABTA) now boasting 45,000 members — including many in the homelands, Swaziland, Lesotho and Botswana—and at least another 40,000 "pirate" operators in the field, the taxi industry has become the most successful example of black enterprise over the past decade.

It also provides a major market for Isuzu and Toyota who dominate the market for the mini-buses called affectionately "Mary Deckers" or "Zola Budds" by black commuters.

Now SABTA is involved in convoluted, and presently stalemated negotiations, to buy the Putco bus company from Luigi Carleo, a third generation South African Italian whose grandfather built up a transport empire transporting blacks from the townships to their work in the city.

If the deal comes off it could lead to a major breakthrough for black business.

Answering back

Capetowners like to look down their noses at Johannesburg, for they see it as a jumped-up mining town. But that is not how it seems to the rest of Africa.

The skyscrapers, throbbing townships and industries give it a raw vitality like nowhere else on the continent.

At night most of the so called central business district is as eerily deserted as the City of London, or used to be but a handful of recent developments have started to re-vitalise the city's life including the rapid growth of de facto mixed race areas in inner suburbs like Mayfair and Yeovil and above all Hillbrow—whose blocks of high rise flats rise from the Reef which made Johannesburg's fortune.

On Saturday mornings downtown Johannesburg is a 90 per cent black city—thronged with black shoppers — often with their immaculately-dressed children. Whites, who over the past 30 years have gravitated to the suburbs, are now coming back, attracted by new shopping malls around the brand new Johannesburg Sun Hotel and above all by Saturday's open-air market next to the market theatre complex.

Saved from demolition in the nick of time the old covered fruit and vegetable market has been turned into a vibrant cultural complex of theatres, a newly-opened music hall in an old warehouse, Kippies—a converted public lavatory which now hosts local jazz legends like saxophonist Mannenberg Coetsee or the African Jazz Pioneers —as well as bookshops, restaurants, pubs and boutiques.

Othello, directed by Janet Suzman, is playing to packed houses at the market with John Kani—probably South Africa's best known black actor—playing the Moor. A couple of years ago white "verkramptes" caused a minor storm by walking out of Strindberg's Miss Julie when Kani kissed the play's namesake on stage. But there have been no problems thus far with Desdemona.

But Jo'burg has its dark side too—including a spate of brutal murders of old people in their homes and a series of rapes and murders in the city's few parks. Every week in suburban streets sees new walls built or new security devices installed to supplement the big dogs which roam most suburban gardens.

Boers and Reds

In the old days when Russia was still ruled by the czars and Afrikaners were fighting British troops in the Boer War the Russians sent a large but rather nasty pink porcelain samovar to Pretoria as a symbol of their support for the Boer "freedom fighters."

Covered with Cyrillic praise, it still occupies pride of place in Pretoria's Transvaal Museum. Much has changed since then—including the severance of diplomatic relations in 1956 when the Russians were told to pack their bags and leave their consulate in Pretoria. They were accused by the then Foreign Minister Eric Louw of espionage and serving drinks to blacks at diplomatic functions.

It is still a moot point which crime was considered the more heinious. A new and even more hostile phase developed after the collapse of the Portuguese African empire in the 1970s. This was followed by the airlifting of thousands of Cuban troops, Soviet bloc advisers and sophisticated weapons to Angola and the forging of close ties with the Marxist Frelimo regime in Mozambique.

Pretoria's suspicions of Soviet intentions in the region were further enhanced by the unmasking of the deputy commander of the Simons Town naval base as a Soviet spy and the use of Soviet embassies in Lesotho and Botswana as listening posts for the gathering of information about the republic.

Recent months, however, have shown signs that both Moscow and Pretoria are re-assessing their future relationship. One straw in the wind was the visa granted to Professor Phillip Nel, Professor of Soviet Studies at Stellenbosch University to attend an international conference on philosophy in Moscow.

During his 16-day stay he also met senior Soviet Africa-watchers and came away impressed with the quality of recent Soviet research and evidence of a serious attempt to come to grips with the complex reality of South African society—including the key role played by Afrikaners and the intellectual and moral turmoil within Afrikaner ranks. They are no longer satisfied with the information and analysis supplied by the South African Communist Party and the ANC, Prof Nel adds.

But a similar re-appraisal appears to be taking place in Pretoria where anti-Americanism is strong in government circles as a result of disinvestment and what many see as the hysterical nature of the US debate on South Africa. Afrikaner military men and analysts are asking: "How many divisions have the Americans in Africa?"—a latter-day version of Stalin's famous question about the Pope.

The answer, of course, is nothing like as many as the Russians—a fact which injects a basic weakness into America's diplomatic efforts to bring peace to the region.

Earlier this month Minister of Defence, General Malan even went so far as to ignore the US role when he stated in parliament that "the two states which could make or break the sub-continent were South Africa and the Soviet Union."

Observer

European telecommunications

Ian Vallance (left), head of Telecom, and Christian Schwarz-Schilling, the Bundespost chief.

Crossed lines on the market view

By Terry Dodsworth, Industrial Editor

AS THE ROW over British Telecom's quality of service rumbles on, the West Germans have introduced a package of proposals which may well form the model for the European telecommunications industry over the next decade.

It makes a piquant contrast: on the one hand, the beleaguered, privatised British Telecom, operating in a highly liberalised market and shuddering under repeated charges of inefficiency; on the other, a committee of West German sages arguing that the best way of assuring a quality service lies in moderate liberalisation and gradual change.

There is little doubt that, after 2½ years of exhaustive and sometimes fraught discussions, the main items of the West German programme will be accepted. At the same time, it is becoming increasingly likely that the West German approach will be widely followed in the rest of Europe.

The European Commission's framework proposals for the industry, published earlier this year, are not far from the West German pattern; the Netherlands will be moving in roughly the same direction when it launches its telecommunications reform project in January; and the French plan, sketched out by Jacques Chirac's right-wing Government, will be similar in shape, if it ever comes to the statute book.

The crucial difference between the two attitudes to change lies in the depth of the British commitment to the market system. The new era in European telecommunications will push the region well down the road towards a more competitive environment. But only Britain has dared, or been foolish enough, to take the critical decision in introducing market forces to the basic telephone network—the system of lines and linkages which many economists regard as a natural monopoly.

This failure of the Europeans to follow the radical path blazed by the UK Government sets the scene for an intriguing ideological battle.

Behind the movement for reform lie new market forces, unleashed by technological changes and the convergence of telecommunications and data processing. Proponents of liberalisation argue that the benefits of these developments, in terms of innovative services and cheaper prices, can best be achieved by injecting competition into every sector of the market. But the moderates believe that introducing it into the basic network is too difficult and dangerous to attempt.

"My belief is that if we go about reform in the usual thorough German way, the results will be terrible," Wolfgang Kaiser, director of the Telecommunications Institute at Stuttgart University, told a recent conference in Berlin. "Evidence that complete liberalisation will bring significant improvements has not yet been produced. We have to change the infrastructure in such a way that we maximise our advantages and minimise our disadvantages."

The result of this attempt to achieve a balance of advantage in the West German telecoms sector is a careful compromise. Competition will be encouraged in the suppply of equipment to the network and private companies, as well as in value added services—information systems which use the telephone network to deliver data to their customers. The Government will also aim to reduce prices and there will be a drive to cut the tariffs of lines leased from the Bundespost to carry heavy business traffic.

But the Bundespost will retain its network monopoly and its right to compete in all areas of the market.

This pattern of reform underscores the strength of the market pressures, which are stimulating change in areas where the new wave of international competition has been felt most strongly.

In equipment provision, for example, it has been evident for some time that increasing research and development costs for large switch and transmission systems have forced smaller companies to merge or leave the business. Countries which have traditionally supported these companies—on strategic, technological and employment grounds—are thus being compelled to adopt a more flexible approach, which will allow the industry to be rationalised through alliances and mergers.

Similar market pressures are beginning to emerge in network services through the development of international business traffic. Corporate users, by far the biggest contributors to the profits of the telephone monopolies, have begun to compare their communication costs in different countries and to lobby vociferously when they feel they are being overcharged.

West Germany has come out particularly badly from these comparisons, which suggest that for some leased lines customers are paying four times as much as they would do in the UK. This has given users such a strong stick with which to beat the Bundespost that Gerd Wigand, a member of the Commission preparing the telecommunications report, suggested at the Berlin conference that if the price of leased lines had been reduced earlier, the drive for reform would have been halted.

"The communications cost of doing business in West Germany has been driven so high that it has become a limiting factor for business," said another delegate. Several executives spoke of international companies which had shifted as much of their data processing as possible out of the country to reduce telephone expenditure.

The test that the West Germans and other Europeans now face is to show that they can push these prices down by administrative edict as effectively as competing networks are doing in the UK. Commission members came close to adopting the competitive option, voting 6:6 on a proposal for such a scheme. But in the end, the doubts about how to inject market forces into the network proved too much.

These hesitations were undoubtedly mixed with a reluctance on the Bundespost trade unions, an army of 500,000 civil servants who have lifetime employment and dislike the idea of competing networks to the system they run.

Yet if the experiments in competitive network systems launched over the last few years had been unequivocally successful, it would have been hard for these objections to persist. In fact, it is clear that many West German officials are by no means sure that the UK has achieved a sufficiently positive spin-off from its reforms, despite the reduction in business communication costs since the advent of Mercury, the alternative network provider.

They are equally sceptical about the US's decision to divide its system between local telephone companies and competing long-distance services.

The West Germans talk, for example, of the dangers of eroding the principle of a universal affordable service if competitors are forced to concentrate on maximising profits — an argument which has been reinforced by tariff increases for residential customers in Britain and America. They point to the fact that both the UK and the US have turned from being net exporters of telecommunications equipment to net importers. They cite the UK failure to develop a strong international equipment supplier. And they underline the sheer logistical difficulties of introducing effective competition, illustrated by the row at BT and the struggle experienced in the US by new rivals to American Telegraph and Telephone.

Indeed, the present quality problems at British Telecom are being interpreted as those of a company that has been forced to go too far too fast. To have launched a modernisation programme while reducing staff costs would have been enough of a challenge, say the critics, without being loaded with the responsibility of responding to the prices of a competitor with lower overheads.

In contrast, the Europeans are playing safe. But by turning their back on such a radical approach, they have opened the way to a clear demonstration of the pros and cons of network competition. The ball is now in British Telecom's court.

UK education policy

A time for pride, not prejudice

By S. J. Prais and Hilary Steedman

MR KENNETH BAKER the British Education Secretary, has asked for public comments by the end of this month on his recently published proposals for a National Curriculum. The idea of a nationally specified British school curriculum is revolutionary, though it is a step that almost all other advanced countries took long ago. That clear and consistent objectives should be set for each year of schooling, in each subject, is something that will be whole-heartedly welcomed by all concerned by the lack of efficiency of large parts of the British schooling system.

Inevitably everyone will have their own reservations on the proposed details. Ours stem from asking a central economic question: will these proposals enable Britain to match other countries in the preparation given at school for the world of work? In one important respect they will not.

Take a 14-year-old in Paris: he has available, in addition to general schools comparable to those in Britain, a considerable range of full-time vocational schools, specialising in fields such as building, engineering and office work. At these schools half the day is spent on general academic subjects, and half on vocational subjects. Because the curriculum is organised more efficiently, it leads to attainments in general subjects (a foreign language, social studies, etc) at a standard at least as good as that provided for most of British pupils at comprehensive school. Vocational studies are divided between practical work (for example, in building workshops) and technical theory. A quarter of all French youngsters emerge from such schools at ages 17 to 18 with examined and nationally-recognised vocational qualifications (for example, as fully qualified electricians, mechanics or carpenters).

The Tokyo pupil at the age of 15 has a similar choice of full-time specialised technical and vocational schools open to him, with a similar curriculum mix. About a quarter of Japanese youngsters attend such schools.

Surprising as it may seem, vocational curricula will not become possible in British secondary schools under the present Department of Education proposals. This is reflected in the list of "foundation subjects," and the 80 to 90 per cent of school time to be devoted to them, which are specified as "good practice" by the DES, and are to guide Her Majesty's Inspectors. The new City Technology Colleges will also be restricted in this way and will not be permitted to teach too much technology. There is also the worry that the syllabuses of "foundation subjects"—which ought in such schools to be influenced by vocational considerations—will be required to follow unduly general principles; for example, science lessons will have too little mechanics and too much zoology, and French lessons will have too little business French and too much "holiday French."

In France, the curriculum is organised more efficiently

In our view, this is a great error. It reflects too much concern by the DES with uniformity of curricula, and gives too little weight to the need for a controlled diversity of curricula to meet the needs of pupils of different aptitudes. In our view, the "foundation subjects" specified by the DES need take up very much less school time than now proposed, and more time must be released for optional subjects in which a school may wish to specialise. Those subjects should also have an approved and systematic syllabus, and should be externally examined.

The present proposals continue to reflect the academic and "anti-practical" bias that has for long characterised the DES establishment. Measures to reinforce technical and vocational studies as a substantial part of the school curriculum are hardly evident in the present proposals. It seems that the forces at DES that presided over the closing of our technical schools a generation ago are still in command.

The consequence of the present proposals will be that the still experimental Technical and Vocational Education Initiative and the proposed City Technology Colleges are to be shackled so that no pupil in Britain—not even in a private school—can have as thorough a technically and vocationally grounded curriculum as he or she could have in other countries.

The fall in the number of apprentices in this country, and the failure of the Youth Training Scheme to provide—at least so far—the required level of technical training and education to yield adequate numbers of skilled craftsmen and technicians, make it imperative that full-time technical schooling be promoted in every possible way. Experience with TVEI so far has confirmed—what has long been understood in other countries—that a strong practical element rekindles the interest of many pupils who are left cold by an academic curriculum. The National Curriculum should offer the possibility for schools to extend that approach and thereby begin to make good the shortfall in Britain in technical skills at all levels that is revealed by overseas comparisons.

The National Curriculum provides the opportunity of remedying deficiencies in the British schooling system. It must not be allowed to be used as a vehicle for prolonging the prejudice against technical and vocational education which has, for much too long, dominated our schools.

The authors are engaged in research on vocational education in Britain and other countries at the National Institute of Economic and Social Research, London.

Letters to the Editor

Mexican reforms

From the Mexican Ambassador.

Sir,—Your leader "The presidency in Mexico" (September 18) contains some assertions that I would like to comment upon. It is wholly inaccurate to imply that the present Mexican Government, absorbed by the management of the debt crisis, has not paid attention to "the need to open up the political system." The fact is that this need has been fully recognised and important legislative measures to answer it have been adopted, continuing a process of political reform which has taken place over the last two decades.

Late in 1986, constitutional amendments and a new Federal Electoral Law were promulgated, the main features of which are as follows: The federal Chamber of Deputies will be integrated by 500 seats, including 100 additional seats, that will double the number of those assigned on a proportional representation basis, up to two fifths of the total number. Besides, the procedure to distribute these seats ensures that the total number for the majority party does not exceed its share in the total vote, correcting in this way the over-representation resulting from a simple majority election system. Furthermore, the electoral processes are organised and overseen by electoral commissions, at federal, local and constituency levels, in which all political parties are now represented on a proportional basis. An independent tribunal, composed by nine members not affiliated to any political party, has been established to resolve on the inconformities and complaints arising from the elections. These new rules and procedures will be used for the first time in the July 1988 elections.

To state that vote-rigging has been a constant in Mexican elections is simply not true. All cases of alleged irregularities have been investigated by the electoral commissions, in which all parties are represented. When they have been found true, the votes obtained in the affected poll-stations have been annulled and, in some instances, electoral results have been declared void. Irregularities, however, have not been sufficiently widespread to warrant the annulment of any state-wide election. Elections have not been perfect, complaint-free affairs; isolated irregularities have been found, but these have not amounted to electoral fraud as such.

Apparently it is not easy to understand that in Mexico, as in some other countries, a party that commands a clear majority of the electorate does exist. It is not that the majority party has "refused to accept any challenge"; rather, the opposition parties are the ones that have not been able to achieve a majority in nation and state-wide polls. As it is unreasonable to expect political parties to engineer their own defeat, it is adequate to expect that governments enact legislation aimed to protect the political right of the minorities and to ensure them adequate representation. This, which is not the case in countries using the simple majority system, has been the case in Mexico and will be the case even more in the future.

Mexico's political debate is now richer; the political parties can react more freely, through mergers and coalitions, to the changing political climate. Options are freely ventilated, inside the parties and in the society as a whole, where an intense interest in the initial steps towards next years' presidential and congressional elections is manifest. In this way, the political reform is not confined to the law-books but it is feeding a quite animated political life. The legislation and the political will exist to ensure that the 1988 electoral contest will be an open, clean and authentic one. It will show, once again, that Mexicans do know what is best for their country.

Jorge Eduardo Navarrete,
8 Halkin Street, SW1.

Pensions and capitalism

From Mr P. Carroll.

Sir,—Philip Chapell (September 24) seems not to recognise that the tax privileges given to retirement provision are necessary. For a young man the chance of reaching age 65, which is often the normal retirement age for men, is little more than 80 per cent. For a young woman the probability of survival to age 60 is admittedly rather better at around 90 per cent because of the superior mortality enjoyed by women and the continuing anomaly that the state pension and often occupational pensions are available to women at an earlier age than men. There are many more immediately gratifying ways of spending money and numerous other savings media from which funds can be withdrawn more easily than pension provision. Few would make adequate provision for their pensions if there were no tax advantages in doing so.

There is, however, a real malaise to which Philip Chapell has drawn attention. Pension funds are now very heavily invested in equities. But equities were designed for private individuals who could afford to lose the whole of their investment. Equities do not match very well the liabilities of pension funds. Equities as a hedge against inflation are less justifiable when inflation has been reduced. Yet pension funds are being locked into equities when the stock market is at a peak by the working of the 105 per cent rule introduced by the Finance Act 1986. If a pension fund did switch on a large scale out of equities into fixed interest stocks it would be difficult to justify the continued use of the same standard portfolio for purposes of valuing the assets.

Perhaps Philip Chapell should really be calling for a limit on the proportion of a pension fund that is invested in ordinary shares?

Patrick Carroll.
85 Canonbury Road, N1.

Spread the VAT base

From Mr M. Welsh, MEP

Sir,—My mail has been overburdened recently with demands from various interest groups demanding that I should firmly resist attempts by "Europe" to impose VAT on their particular product. Recently communications have come from builders merchants, municipal bus companies, newspaper proprietors and now book publishers. Their demands have been backed up by a vociferous press campaign centring on the British Government's case in the European Court against the Commission's attempt to end our zero rating derogation on new buildings and other products.

This campaign appears to owe more to the desire of those industries, which for historical reasons have been left free of turnover tax, to preserve their privileges rather than any rational consideration of taxation policy. It is always possible to make a perfectly plausible case for any industry to be exempted until its merits are compared with those of any other industry which is caught by the fiscal net. Indeed one can make a case for having no tax at all until one is confronted with emotive TV programmes calling for more resources to fight children's cancer or more danger money for our men in the Gulf.

Exemptions invariably produce the kind of anomaly and inconsistency that totally discredited purchase tax, not least because a disproportionate burden is necessarily imposed on those goods which are taxed. Why not spread the VAT base and reduce the rate to 8 per cent? This would at one stroke make the system more efficient, far easier to administer and save us from having to read the self serving chauvinist rubbish by which we have been deluged in recent months.

Michael Welsh.
181 Town Lane,
Whittle-le-Woods,
Chorley, Lancs.

Stripped of mythologies

From Mr D. Nicholas

Sir,—John Lloyd's pessimistic piece on race (September 21) suffers in the first instance from a problem of definition. Having acknowledged that the term "racism" confuses more than it describes, as if to prove the point he then continues to use such expressions as "multiracial society" and "racially balanced," when what he is clearly describing are the effects of a multi-cultural society.

More serious though is the contention that such discrimination is unlikely to be susceptible to solutions based on individualism or the market-place. Surely, quite the opposite can be argued strongly. "Race" is an abstraction—and an unscientific one at that—and like all collective entities does not really exist other than as a verbal category. The ethos of Margaret Thatcher's Britain, if it does nothing else, will increasingly force men and women to confront each other as particular individuals, stripped of the protective mythologies of group or class membership.

Faced like this many of the difficulties simply wither away far more effectively than state imposed remedies which tend to institutionalise and thereby perpetuate a "non-problem."

David J. Nicholas,
5 Howard Road,
Coulsdon, Surrey.

Yetis alive in the City

From Mr B. Rombach

Sir,—May I bring to your notice yet another creature who has joined the Yuppies and Dinkies in our financial markets, namely, the Yeti. To enlighten other readers who are, like myself, dinosaurs and dodos, I shall explain that the initials Yeti, stand for Young Exceptionally Tedious Idiot. While these pretty creatures confined their activities to gambolling in the foothills of the Himalayas, they were comparatively harmless. With their arrival in increasing numbers in the City, however, I fear for the future of our financial institutions.

Balfour A. Rombach,
5 The Crescent,
Sevenoaks, Kent.

FINANCIAL TIMES

Monday September 28 1987

Anatole Kaletsky on Wall Street

Unfriendly knock on bank door

WHEN THE lineal successor to Alexander Hamilton, the first US Treasury Secretary, comes knocking at the door of Number One Wall Street, a financial drama of rare fascination is in the making.

The $1.4bn takeover bid for Irving Bank by Bank of New York, announced on Friday, may be no big deal by the gargantuan standards of contemporary Wall Street: but it has more than enough local colour and precedent-breaking uncertainties to keep the arbitrageurs glued to their computer screens.

The first question is simply this: can a hostile bid for a US bank succeed? If this takeover happens, the blue-blooded Bank of New York will have added another distinction to its historic pedigree. Not only will it be the first bank to have been founded in the US (by Hamilton, in 1784); it will also be the first, at least in living memory, to have succeeded in an unfriendly and unsolicited merger.

Since the notorious bid for Chemical Bank by Mr Saul Steinberg collapsed 20 years ago, the US banking community has managed to remain aloof from the upheavals of corporate raiding and merger mania. With the withdrawal of First Interstate's bid for BankAmerica earlier this year, the message seemed to be confirmed - the banking industry was definitely out of bounds for hostile acquisitions.

However, the reasons why banks remained untouched by merger mania were never quite clear. The regulatory prohibitions against inter-state bank mergers were obviously part of the story. And as the regulations began to loosen, the ready availability of failing banks which were all too willing to be taken over at knock-down prices, was another reason why hostile mergers were so rarely tried.

The fact that BNY's cash and securities offer of $80 a share represented a premium of 54 per cent on Irving's share price, indicates how far from anybody's mind was the idea that banks such as Irving could become the victims of a takeover bid.

If anybody had thought of the possibility of large-scale bank mergers in New York, however, Irving and BNY would certainly have looked like prime candidates for combination. Each has assets of around $20bn, which put them far below the big league of great money centre banks on their own; but together or the combined entity, with $40bn of assets, would be within shouting distance of Bankers Trust and in a position to compete strongly.

Just as important, Irving is BNY's prime competitor in several of the lucrative trust, custodian and clearing services which both banks provide for the securities industry of Wall Street. Indeed, if this were any other industry, consolidating these service functions would simultaneously be the most powerful incentive for the merger and the strongest reason for questioning it on anti-trust grounds.

BNY is the biggest clearer of government securities on Wall Street, while Irving is the second biggest. Irving is the second biggest issuer of American Depositary Receipts for foreign companies listing their shares on US stock exchanges, while BNY is the third biggest - together they would rival, or possibly even overtake the present leader, Morgan Guaranty.

Similar stories can be told about lending to the securities industry, trust services for mutual and unit trusts, corporate trusts and securities custody. Could these overlaps raise anti-trust objections, either at the Federal or the state level?

Outside the banking industry, they well might. But within banking, such questions have rarely been posed, and never answered.

Another fascinating question relates to BNY's intentions for Irving's Third World lending. The plan is to sell $500m of Irving's LDC loans. But where would the merged bank find any buyers, and would the sales fetch anything like the $380m which BNY seems to be assuming?

Finally, of course, there is the most important question in any contested takeover: Will another bidder enter the fray? A foreign bank could easily be attracted to Irving's prestigious Wall Street franchise.

Of course, in that case many of the potential savings from consolidation and eliminating overlaps would go out the window - but that could be the best reason for Irving to rush into the arms of a foreign suitor. Eliminating overlaps is not much fun if you are the overlap.

As for the price, $80 a share, a price:earnings ratio of 12 and a premium of 72 per cent to book value may seem fairly generous by New York standards. But who can say how much a Japanese institution might pay to hang its name plate on the door of Number One, Wall Street?

William Dawkins in Brussels considers the prospect of plant closures

Crunch time for European steel

INDUSTRY MINISTERS of the European Community reached unusual unanimity last week when they agreed to stop steel output controls until they get guarantees of deep cuts in the industry's 30m tonnes of overcapacity. The question in the minds of steel company executives now is which of them will have to make the sacrifice.

The industry ministers are handing the task of obtaining the guarantees to a panel of three, to be appointed soon by the European Commission. The panel's uncomfortable job involves deciding which regions will lose the 80,000 jobs expected to come out of the sector between now and 1990.

Community steelmakers have already shut nearly 32m tonnes of capacity since the turn of the decade, leaving a present total of 140m tonnes. The last round of cuts came mainly from smaller mills making long products, but the next will come from larger integrated plants. Many of these are publicly owned enterprises in regions of already-high unemployment.

The hard kernel of the problem is the 10m tonnes overcapacity concentrated in hot-rolled strip mills, the biggest single area of overcapacity in sheer tonnage terms. A cut here would go a long way to restoring the industry to full health. Choosing between steelmaking winners and losers is fraught with traps, however.

Comparison of capacity use shows apparent scope for moving production from closed mills to those with spare capacity. The average EC hot-rolling mill ran at an unsatisfactory 70 per cent of capacity last year, according to industry estimates.

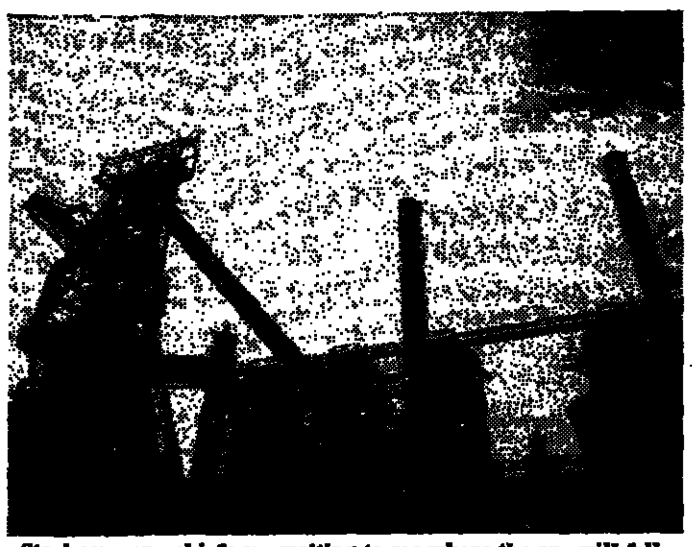
On the surface of it, mills running below that rate should go. Yet the lowest capacity use in the EC, 65 per cent, was at the highly profitable Hoogovens plant in the Netherlands. The highest at 80 per cent was in one of Europe's least profitable steel companies, Usinor-Sacilor of France. Its loss-makers are mostly in long products rather than flat-rolled capacity, but its plants are busy enough to make a move of production difficult.

Straightforward profits might be another criterion, but experts argue that they are not in themselves a failsafe guide to viability. They point to British Steel, which unveiled impressive net profits of £178m ($290m) for the year to last March, a performance artificially helped by the impact of the pound's weakness on the group's export competitiveness.

A look at British Steel's gross rather than net margins, however, begs questions over the real extent of its recovery. At 8 per cent they come out well below the 13 to 14 per cent which the European Commission considers to be the least a viable steel company needs to cover depreciation and debt charges.

According to the Commission's gross margin test, the most competitive hot rolling mills in the EC include Hoogovens and Sidmar in Belgium, while the death knell should sound for Cockerill Sambre and Boel in Belgium and Italsider of Italy.

A closure of Italsider's Bagnoli plant near Naples and shift of its production to Taranto is considered technically feasible, apart from the political rumpus such a move would create. Similar transfers could work between Cockerill Sambre's Charleroi and Liege plants and British Steel's Ravenscraig production could in theory be moved elsewhere within the group.



Steel company chiefs are waiting to see where the axe will fall

But all this ignores the growing realisation within the industry that the seat of the problem is in West Germany, by a long way the EC's biggest producer of hot-rolled products. With six major rolling mills Germany should have more scope to shift production between plants.

The West German industry also has scope to tidy up the series of historical accidents which left it with many different parts of the steelmaking process in the wrong locations. One example is Kloeckner's rolling mill in Bremen, which has to be fed with slabs imported from Osnabruck. Attempts to sort out the tangle four years ago came to nothing because the companies involved could not agree on merger terms.

A model for the kind of arrangement that the West Germans have failed to get is the co-operation deal struck between Arbed in Luxembourg and Cockerill Sambre in Belgium two years ago. In exchange for closures on both sides Arbed now supplies slab steel to Cockerill Sambre, which returns it to Luxembourg as rolled coil for further processing.

The signs are that Bonn will put up a fierce fight against further steel cuts, however. Its industry is already facing 20,000 to 30,000 job cuts and West Germany's six large rolling mills are among the EC's better performers, certainly by the Commission's gross margin test. Moreover, Germany's capacity use is in line with the EC average, at more than 70 per cent.

By any criteria one cares to choose, the Community's steel panel will be wrestling with some tough dilemmas in the next few weeks.

THE LEX COLUMN

Breaking up is hard to do

Although Storehouse can never be the same again, the Benlox approach is surely not the answer. After receiving two offers in the space of three days, the Storehouse board must be on trial before its shareholders. But a purely paper bid from Benlox - itself little more than a shell for a loose grouping of financiers - merely offers Storehouse shareholders their *own* equity under a different name.

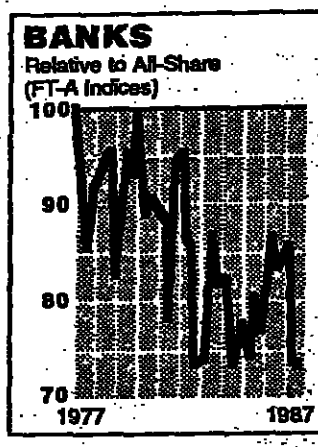
The difference between Friday's closing price for Storehouse of 349p and the 501p apparent *value of the bid* (based on the closing Benlox price) rests heavily on the assumed stock market value of Storehouse's constituent parts. There *is something to* be said for the Benlox argument that this approach *allows* shareholders to take part in any re-rating of the underlying value, but given the chance *many would have* preferred the 445p hard cash offered by Mountleigh.

If the flaw in Mountleigh's thinking was that it had to offer shareholders less than Storehouse was worth in order to take a turn, the same must hold good for Benlox. There may well be value to be gained from floating Storehouse off piecemeal, but institutional investors would be better advised to convince Sir Terence Conran of this directly than to pay a broker's fee to Ifincorp, Earl.

The history of Ifincorp, Earl's demerger attempts is not inspiring. In the cases of Extel and London and Northern, it did little more than cover its costs. To gain any sort of credibility it must do more this time round - and it should not be forgotten that in its pursuit of Extel it introduced a cash alternative at a later stage. To do the same for Storehouse, *involving* the underwriting of one company's *shares to buy another 45 times* its size, would be a triumph for the underwriters but not necessarily for common sense.

Banking control

The abortive approach by Saatchi & Saatchi to the Midland Bank has a number of thought-provoking angles, but *the most timely is the question* of who is a fit and proper person to own a clearing bank. Historically, the question would never have been raised; for the authorities *as well as the* banking community, it was self-evident that British banks should be owned and run by British bankers - no outsiders, and no



damned *foreigners* either. But with the globalisation of financial markets - the Saatchis are right about that, *at least* - the climate has been changing. This Thursday sees the arrival of the Banking Act, which by making the "fit and proper" question a matter of legal definition makes, it the more likely that one of these days a clearer is going to come under outside control.

International pressures aside, many of the arguments for treating bank takeovers as a special case are looking dated. The banks have in recent years played less of a role in monetary policy, with the flow of credit being supposedly left to the markets rather than *controlled by the corset. The* monopolistic power of individual banks has weakened; the Midland's share of high street banking in the UK is now around 12 per cent.

As to hostile takeovers, the banking community opposes them on the grounds that they *could destroy a bank by causing* a management exodus, and could also trigger a flight of deposits. The first of these arguments could apply equally to *any business based on people.* The second, which is strongly supported by the Bank of England; is in turn based on the undoubted fact that the banking *system depends on public confi*dence. But this argument has too often been used by the banks to get away with things, such as their stubborn refusal in the past to make any significant disclosure of their results to shareholders.

Whether intentionally or not, the Banking Act will have the radical effect of exposing these arguments to judicial review.

Until now, the ultimate authority on the *question of who is fit to* control a bank has been the Bank of England. In practice, this will probably remain true in most cases. But applicants rejected by the Bank *will now* be able to appeal to the new Banking Appeals Tribunal set up under the aegis of the Treasury, and thereafter, if really determined, *to the High Court, where* the argument can be conducted over such legal specifics as the checklist for qualifications set out in the Act.

All this applies, of course, at a shareholding level of only 15 per cent. Anyone clearing that hurdle and going for full control still risks being tripped by the *Office of Fair Trading on* grounds of competition policy or national interest, the catch-all nature of which was vividly *illustrated* by the fudged *rejection of Hongkong & Shanghai's* bid for the Royal Bank of Scotland. As a last throw, the Treasury can use the Financial Services Act to block a bidder from a country *which does not offer* reciprocal access.

But that is an argument which works more against the UK than for it. Though the authorities point smugly *to the number of* foreign banks doing business in London, they do so chiefly through branches. When it comes to owning deposit-taking foreign subsidiaries, it *is* the British who set the pace, not only in the countries of the old Empire but in the US and Europe. Granted, other countries are *not in the habit of letting* their big clearing banks fall under foreign control, and the Bank of England is entitled to ensure that it keeps a grip on the clearing system for wider economic reasons. But there is a hint of protectionism in the British attitude to smaller banks too, current goings-on at Guinness Mahon and Hill Samuel notwithstanding.

International comparison also suggests that the UK is out of line in the matter of banks being controlled by domestic non-bankers. It is argued that this *risks incestuous relationships* and conflicts of interest, with the proprietor demanding preferential loans for his non-banking business and so forth. This *does not seem to apply in* West Germany, or to the Suez group in France, whose banking side seems to coexist peaceably with its industrial interests. In the US, certainly, the opposite case obtains; the Fed might permit IBM, say, to buy Citicorp, but only if it sold its computer business.

British Labour Party set for sweeping review of policies

BY PETER RIDDELL, POLITICAL EDITOR, IN BRIGHTON

THE BRITISH Labour Party conference *is today set to back a* far-reaching review of its policies after an intensive debate over the weekend about how far present economic and defence commitments should be revised.

Sharply divergent views emerged during an almost continuous series of pre-conference fringe meetings of various factions.

These *focused on* defence and, in particular, on the call by Mr Bryan Gould, the party's trade and industry spokesman, for the acceptance of wider *share ownership as part of the* updating of Labour's appeal after three successive general election defeats.

Mr Gould said: 'We cannot put *our principles into practice* unless we get away from the image of a party which is reactionary, constantly defending the status quo and always holding people back.'

Advocacy of increased share ownership as a way of increasing electoral support was, however, described as 'nonsense' by *Mr Ken Livingstone, the* new left-wing Labour MP who is a rival to Mr Gould for a place on the party's national executive committee.

Other hard left leaders and leaflets warned of the dangers of a drift by the leadership away from socialism and towards the ground occupied by the *Liberals* and the Social Democratic Party.

Mr Gould later sought to clarify his position and indicate that he was not 'proposing a bonfire of commitments and principles.'

He saw wider share ownership as a means of offering employees a real stake and say in the companies for which they worked. However, even some in the centre of the party feel that Mr Gould may have gone out on a limb and yesterday Mr Robin Cook, the social services *spokesman*, remarked: 'I've tried it with water and with ice but I still have difficulty in swallowing wider share ownership.'

Nevertheless, the committee's statement, 'Moving Ahead,' and resolutions calling for a policy review to broaden support and attract 'the relatively affluent,' especially *in southern England*, are certain to be approved by the conference this morning.

Mr Neil Kinnock, the party leader, will tonight make plain *in a pre-recorded BBC televi*sion interview that policies will have to be tested to be 'acceptable to the party and the public and to the realities, we shall *face in four or five years' time.*' He says in the programme that the policy review is as applicable in defence as elsewhere.

In a BBC interview broadcast yesterday Mr Roy Hattersley, the party deputy leader, goes further in arguing that the case for re-examining defence policy was more than that *of other pol*icies.

Opinion polls showed that defence had been the major vote loser for Labour in June. Strategic circumstances were now changing and a non-nuclear commitment was not a central principle.

The present non-nuclear approach is likely to reaffirmed by the conference on Thursday.

Philip Bassett and Michael Cassell write: The conference seems likely today to widen the franchise for the selection and reselection of Labour MPs and *also to give trade unions* a designated role in the process by setting up *local* electoral colleges as the mechanism for selection.

Mr Kinnock regards this step as a crucial one in building popular support for Labour among the electorate.

But senior Labour leaders *maintain that they are content* with the proposal to have local election colleges in which unions would have up to 40 per cent of the available votes, as *the machinery for selection* rather than each member of the party having one vote.

Montedison in $785m rights issue

Continued from Page 1

total shareholders' funds.

The money *is* to be raised by the issue - in the period from December 17 to 28 - of 540.9m new ordinary voting shares priced at L1,900 each, representing a discount *of* 13.6 per cent against Friday's closing Montedison share price of L2,199.

One new share will be offered for every five ordinary or savings shares already held. An extraordinary shareholders' meeting will be asked on November 10 to approve the operation.

Montedison said yesterday that $250m of the new share issue, or just under one-third of the total, will be placed in New York by Wertheim Schroeder, the investment bank that has agreed to acquire rights from shareholders and place the new *shares as* American Depository Receipts (ADRs).

If Wertheim succeeds in placing all these shares, the effect would be to float an additional 5 per cent of Montedison's share capital outside Italy. At present roughly 15 per cent of the group is controlled by foreign investors.

Ferruzzi, the Ravenna *food* and agricultural products conglomerate which owns 39.1 per cent of Montedison, is expected to take up its full allocation of rights.

This means that Mr Raul Gardini, the chief executive and majority shareholder of Ferruzzi, will have to find $307m to avoid dilution of his Montedison stake.

Aside from the $1.5bn being spent on raising its stake in Himont from 38.5 to 77 per cent, Montedison is seeking a further 3 per cent of Himont on the New York Stock Exchange, which will cost it around $90m.

A further $500m has been committed by Montedison recently in two other operations.

These are its public offer to buy out the 25 per cent minority of Farmitalia Carlo Erba, its pharmaceuticals subsidiary, held by public investors (thus achieving *100* per cent control of Farmitalia); and the MonteShell joint venture in Italian petrol refining and retailing agreed last week with Shell Oil.

*In the past two years Montedi*son has spent a total of L6,000bn on large-scale diversification

Reagan moves to cut US budget deficit

Continued from Page 1

1995, a level which the Fund said would not be accepted by financial markets. Without a further shift in policies towards cutting the US budget deficit and *boosting growth elsewhere*, the markets might respond by forcing a 15 to 20 per cent devaluation of the dollar.

The weekend communique pledges governments to take further action "as necessary" to underpin the Louvre accord, but includes no specific new commitments beyond President Reagan's announcements.

The Fund has also warned *that the present scale of inter*vention by central banks could undermine market confidence in their commitment to curb inflation.

Senior officials here added that there were doubts among several central banks, including the US *Federal* Reserve and the West German Bundesbank, about the sustainability of massive intervention. The Fed, the official said, had already ex*hausted its reserves of the yen*, although it had access to further substantial amounts under swap arrangements with the Bank of Tokyo. The Bundesbank *which, like the Fed, has limited* its intervention since February to relatively small amounts, was concerned about the monetary implications of large dollar pur*chases*.

The unease over interest rates during the talks reflected recent signs that borrowing costs in West Germany and Japan have *started* to move upwards. According to the officials, Mr Baker has made it clear that the US cannot go on raising its interest rates to support the dollar without parallel *efforts by surplus countries to* hold their rates down.

That view was echoed in public by Mr Onno Ruding, the Dutch Finance Minister and chairman of the IMF's interim committee, who said that higher interest rates were "the last thing we need."

Mr Lawson, who has emerged as one of the *strongest* supporters of the Louvre agreement, said he saw no reason for a general upward shift in interest rates as inflationary pressures in the world economy remained subdued.

The British Chancellor also *reaffirmed his commitment* to a further period of stability for the pound.

Some central bank officials said that they expected a positive *response* to their latest accord when currency markets open this morning.

World Weather

		°C	°F			°C	°F			°C	°F			°C	°F
Ajaccio	F	26	79	Dubrovnik	R	26	79	Malta	S	32	90	Rhodes	S	26	79
Algiers	C	30	86	Edinburgh	C	10	50	Manchester	F	12	54	Rio de J'o	-	-	-
Amsterdam	R	12	54	Faro	F	24	75	Manila	-	-	-	Rome	C	27	81
Athens	S	28	82	Florence	F	29	84	Melbourne	F	29	84	Salzburg	C	9	48
Bahrain	S	36	97	Frankfurt	C	13	55	Mexico City	-	-	-	San Francisco	S	12	54
Bangkok	S	37	99	Funchal	F	24	75	Miami	S	25	77	Seoul	R	19	66
Barcelona	S	26	79	Geneva	F	10	50	Milan	S	25	77	Singapore	R	26	79
Beirut	S	27	81	Gibraltar	C	22	72	Montreal	S	4	39	Stockholm	C	9	48
Belfast	F	11	52	Glasgow	S	12	54	Moscow	C	11	52	Strasbourg	F	15	59
Belgrade	S	29	84	Guernsey	C	13	55	Munich	C	11	52	Sydney	C	31	88
Berlin	F	13	55	Helsinki	F	13	55	Nairobi	F	29	84	Taipei	-	-	-
Biarritz	F	17	63	H. Kong	F	25	77	Naples	F	30	86	Tangier	S	21	70
Bombay	F	31	88	Innsbruck	C	10	50	Nassau	-	-	-	Tel Aviv	S	29	84
Bordeaux	F	17	63	Inverness	G	9	48	New Delhi	S	36	97	Tenerife	F	27	81
Brussels	C	13	55	Islamabad	-	-	-	New York	S	15	59	Tokyo	C	21	70
Budapest	C	16	61	Istanbul	S	26	79	Nice	S	27	81	Toronto	S	10	50
B. Aires	C	18	65	Jakarta	-	-	-	Nicosia	-	-	-	Tunis	S	40	104
Cairo	S	31	88	Jersey	C	15	59	Oporto	C	23	73	Valencia	S	30	86
Cape Town	S	21	70	Jo'burg	R	7	45	Oslo	C	10	50	Venice	F	28	82
Caracas	C	29	84	Lima	-	-	-	Paris	F	15	59	Vienna	R	11	52
Casablanca	F	26	79	Lisbon	F	22	72	Peking	-	-	-	Warsaw	C	13	55
Chicago	F	18	64	London	F	13	55	Prague	C	11	52	Washington	C	17	63
Cologne	C	13	55	Los Angeles	C	19	66	Reykjavik	C	12	54	Zurich	S	12	54
Copenhagen	H	7	45	Luxembourg	C	11	52								
Corfu	S	30	86	Madrid	F	23	73								
Dallas	S	21	70	Majorca	S	30	86								
Dublin	C	12	54	Malaga	S	26	79								

Readings at mid-day yesterday
C-Cloudy D-Drizzle F-Fair Fg-Fog H-Hail R-Rain S-Sun Sl-Sleet Sn-Snow T-Thunder

Post-coup talks take Fiji step nearer to republic

Continued from Page 1

Minister ousted in Col Rabuka's first coup on May 14, and some of his former cabinet colleagues, trade unionists, local leaders, journalists and officials. A military spokesman yesterday refused to say how *many people were detained.*

Although a car bomb explosion in Suva killed one person and badly injured two others on Saturday night, the country was quiet yesterday as the military methodically tightened its grip.

The military spokesman acknowledged *that the coup* would have serious consequences for the economy, which is dependent on tourism and the Indian-dominated sugar industry for its foreign exchange earnings. 'You must understand that the indigenous Fijians do not weigh their aspirations for their rights in economic terms,' he said.

SECTION III

FINANCIAL TIMES SURVEY

As the IMF assembles in Washington, there is a plausible case for optimism. But private deliberations will be less sanguine than public reassurances, warns **Philip Stephens**; and ministers must acknowledge that indicators suggest that present growth and trade patterns are unsustainable.

Brighter but not much

AN ACCELERATION, albeit modest, in economic growth, a new realism in the handling of the debt crisis, and an improving pattern of world trade will be the optimistic outlook on offer from the West's leading economic policymakers this week.

Few, with the exception perhaps of Britain's Nigel Lawson, will claim that their economic growth rates are yet matching their potential. Fewer still will assert that the problems posed by still-huge trade imbalances and rising protectionist sentiment have been solved.

But, in the run-up to their annual get-togethers in Washington this week, finance ministers and central bankers from the industrial nations have been carefully nurturing a sense that the outlook is brightening.

There are some positive signs. February's Louvre accord to stabilise the dollar is seen by Europe and Japan at least, as far more successful than either the financial markets or economic commentators have given them credit for.

Despite bouts of extreme turbulence on foreign exchange markets, the dollar's value against the Yen and against the D-mark is little different from when the agreement was last re-affirmed in April.

If co-operation in exchange market intervention has sometimes been half-hearted - Japan and the UK have borne the brunt as the US Federal Reserve has remained in the background - co-ordination of monetary policies has been better.

The US has acknowledged the inevitability of higher interest rates, while West Germany and Japan have put monetary targetry aside in order to keep interest rates relatively low and widen the differential with the US.

Japan, whose finance minister Mr Kiichi Miyazawa was forced into a succession of emergency economic packages in response to the Yen's previous appreciation, at last seems to be showing a strengthening domestic growth rate. Mr Miyazawa, whose easy grasp of international issues is in stark contrast to the traditional insularity of Japanese policy-making, has also signalled that Japan is ready to take a leading role in efforts to defuse the debt crisis.

The US Budget deficit, seen as at the heart of the country's massive US current account deficit and the parallel surpluses in Japan and West Germany, looks set to fall by $60bn to $160bn this year.

In West Germany the pace of growth remains extremely sluggish, but Mr Gerhard Stoltenberg, the country's finance minister, will at least be able to promise a DM14bn package of tax cuts in January.

Shifts in trade volumes also look encouraging. Although the nominal US deficit and the West German and Japanese surpluses have been relatively static, the terms of trade effect of the dollar's depreciation has masked a sizeable shift in volume trade flows.

Measured in constant dollar terms, US exports during the second quarter of this year rose by around 13 per cent at an annual rate against an increase in imports of a little over 5 per cent. The latest Japanese trade figures have shown an impressive rise in imports, bringing predictions from the Tokyo government that its surplus will fall by around $10bn this year.

The *raison d'être* of the Louvre accord is to allow more time for this process to continue - for resources in the US to be shifted into exports sector and for Japan and West Germany to become less-reliant on export-led growth.

If all this adds up, however, to a plausible case for optimism, the private deliberations between policymakers this week will be far less sanguine than their public reassurances.

Although growth is expected to accelerate next year, the pick-up may be barely measurable. The IMF is forecasting that taken together the output of the industrialised countries will rise by fractionally above 2.5 per cent in 1988, compared with a figure fractionally below that in 1987.

That means that there is little prospect of any significant fall in the unemployment total, now standing at 31m in the 24 nations which make up the Organisation for Economic Cooperation and Development.

The pattern of growth - with domestic demand in the US rising less fast than output and the reverse position in the surplus countries - may be in the direction needed to erode the trade imbalances.

But, as Mr James Baker, the US Treasury Secretary, remarked earlier this month, much more needs to be done to close the growth gap between the US and its major industrial competitors if the US trade deficit is to be reduced to a sustainable level.

For its part, the Washington Administration seems unlikely to follow up this year's cut in the Budget deficit with a further reduction in 1988. The latest calculations from the Congressional Budget Office suggest that much of the $60bn reduction in 1987 was a one-off windfall resulting from last year's tax reform programme. On current trends the prospects for next year are for an increase.

Against that background, ministers will have to acknowledge, privately at least, that the economic performance indicators on which they are relying to enhance co-ordination of national policies suggest that present growth and trade patterns are unsustainable.

Econometric studies by both the IMF and by the OECD indicate that on current trends, and assuming no further depreciation of the dollar, the US may still be running at $100bn current account deficit in the 1990s.

One problem is that the initial trade imbalances are so large that US competitiveness needs to be much stronger than at present. In other words, even if the dollar's value is broadly in line with economic fundamentals, it probably needs to fall below that level for some time if the imbalances are to be reversed.

At the same time US industry has suffered major, and more permanent, losses of markets as a result of the debt crisis. The US trade balance with Latin America has worsened by $13bn since 1980.

Thirdly, the impact of the accumulated deficits of the past few years in turning the US from a net creditor to a net debtor implies a permanent loss of investment income.

A report earlier this year from the OECD's balance of payments group, Working Party 3, detailed the risks this involves for the world economy.

The dollar could collapse on financial markets, driving up US interest rates and tipping first the US, and then perhaps the world economy, into recession. Protectionist rhetoric in the US Congress might easily be translated into real trade barriers.

To avoid that risk, the report concluded, governments would have to undertake policy adjustments going far beyond those agreed within the framework of the Louvre accord. That point was underlined again last month by the Bank of England, ironically one of the most active defenders in the markets of the currency pact.

"With the present constellation of rates, it seems likely that further progress in narrowing the external imbalances will require considerable changes in the relative growth of domestic demand of the three major economies", the Bank said in its quarterly economic review.

On present trends there seems little prospect of such a shift. As Mr Stoltenberg makes clear in this survey, West Germany is not prepared to risk price stability by making a dash for growth.

Similarly, the US Administration is unlikely in an election year to seek to dampen the country's appetite for imports by pushing it into a recession.

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World Economy

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WORLD ECONOMY 2

Debt and the developing countries: FT writers present two perspectives on the worsening problem

Banks will have to accept larger Third World losses

THE DEVELOPING country debt crisis has been an evolutionary process since it first broke with Mexico's cash crunch five years ago. In the past year, however, it has been evolving rather rapidly. Several key precedents have been set, and fundamental changes have occurred in most parties' approach.

The reason for the evolution was the sheer scale of the crisis. If it had not been contained by what has been seen as a series of stop-gap, muddling-through means, it would have caused no less than the collapse of the world's banking system.

So in the autumn of 1982, the International Monetary Fund, the US and other governments, the banks and Mexico, established a holding pattern which became the standard approach. Financial packages were put together for troubled debtors, involving typically:

- An economic adjustment programme approved and monitored by the IMF and supported by an IMF standby credit;
- Rescheduling of debt to governments through the Paris Club;
- Rescheduling of debt to banks agreed through advisory committees of leading creditor banks; and
- Accompanying new loans from banks of which the main purpose was to fund the payment of interest back to the banks.

Disbursements of the loans were tied to those by the IMF, which in turn depended on the debtor's adherence to its economic programme.

Underlying this approach was the assumption that developing countries were essentially facing a liquidity problem; and that economic medicine to right their payments imbalances would quickly enable them to restore their easy access to the capital markets.

This goal has steadily appeared more and more unrealistic, partly because of the persistent weakness in commodity prices which damaged debtors' export earnings. Countries increasingly rebelled against IMF strictures which tended to curb growth of their economies. In 1985, Mr James Baker, the US Treasury Secretary, encouraged a switch to a more growth-oriented strategy, involving the advance of loans designed to assist economic adjustment.

The so-called Baker Plan, however, was not really a plan, in that no concerted effort was put into making it work as one. Developing countries, instead of receiving more finance, became increasingly aware that they were suffering huge negative net transfers of funds as they sought to keep up their interest payments.

The five years of the debt crisis has therefore seen a steady trend by banks - against their will - towards concessional financing. At first this could not be contemplated, because the accounting consequences would have caused banks losses that they could not withstand. But as they have gradually built up their capital, unwelcome precedents have become more tolerable.

The small concessional moves so far, however, seem likely to be merely the thin end of the wedge. In the end, banks seem bound to accept much larger losses on their Third World portfolio than they have so far acknowledged.

Citicorp signalled an attempt to prevent problem loan portfolios from becoming a constant drag on profits.

At first, rescheduling terms were eased: maturities were lengthened and margins over money market rates were narrowed. Banks also agreed in some cases to multi-year reschedulings, instead of looking at maturities coming due in only one year. The significant aspect of this was that the periods went beyond those covered by IMF agreements.

Over the past year, more radical changes have been made as all parties have recognised that the previous approach was outmoded and stale. The troubles of Mexico and Brazil - which naturally tend to dictate the trend because they are the biggest debtors - have primarily caused the changes.

Mexico had been seen to some extent as the best example of how debt crisis management was working. But last year the drop in oil prices helped to push it again into deep trouble. A new rescue package was put together, for the first time involving contingency financing: the IMF and banks would put up extra money if economic growth and export earnings (closely related to oil prices) were below projections. For Mr Baker, it was the biggest test of the Baker Plan and it became politically important that a deal should be struck.

Banks were asked for a $7bn long-term loan at a new low margin of 13/16 per cent over London interbank offered rates. A year ago, at the IMF-World Bank meetings in Washington, the terms were forced upon leading banks over their objections that Mexico's true financing needs were unclear and the terms would be very difficult to sell to other banks.

In hindsight, they were right. Mexico now has over $15bn in reserves, and the loan package took more than seven acrimonious months to assemble. Most bankers believe that this was the last "new money" package in the traditional form.

These events forced a new assessment by banks of their strategies. This was made even more glaringly necessarily in February this year when Brazil, which had seemed on the crest of success during 1986, abruptly suffered a severe deterioration in its economy and trade position, and became the first important debtor formally to suspend interest payments to banks. The moratorium is still in force.

In May, Citicorp, the largest lender to many of the problem debtors, stunned the banking world by adding $3bn to its loan loss reserves. Citicorp was the chief proponent of the theory that the handling of the debt crisis was designed to return debtors to the capital markets, and this move apeared to recognise that their return could be a long way off.

It put considerable pressure on other banks, including those in less happy financial shape than Citicorp - Mr John Reed, Citicorp chairman, telephoned only two fellow bankers in advance of the announcement, the chairmen of Bank of America and Manufacturers Hanover - to do the same. They did.

The move signalled an attempt to use problem loan portfolios for profitable purposes, rather than letting them sit on the balance sheet as a constant drag on profits. Citicorp plans no major sell-off of its loan portfolio, but a steady conversion of some of its loans into equity in its own Latin American subsidiaries, other financial services concerns, and even non-financial comanies following a relaxation of Federal Reserve curbs on the latter. Other banks have embarked on similar plans.

Meanwhile, however, the business of preparing rescheduling new loan and rescheduling packages had to continue, despite the widely received view that provisioning meant that no new bank loans could be raised.

To do this, the so-called "menu of options" approach was adopted. Loans would be made, but they would be accompanied by various alternatives designed to make it more attractive for banks to participate: debt/equity swaps, co-financing with the World Bank, trade finance, "new money" bonds substituting for loans, and so forth. "Exit bonds", which would offer poorer terms but the opportunity never again to be subject to a debt rescheduling or "forced" loan request, are in the early stages of development.

A package for Argentina was successfully completed as the first example of the menu approach, although the subsequent deterioration of the country's trade position has cast doubt on its durability. Next year, Brazil is likely to work out a similar, though much larger, deal. Given Brazil's recent demand - quickly dropped at the urging of Mr Baker - for the compulsory conversion of half the country's $68bn bank debt into long-term, low-interest securities, there seems likely to be considerable pressure for new precedents to be set. The most likely seems to be the opportunity for banks to capitalise interest instead of advancing new money.

There remain many problems with the approach, however. For example, if a Latin American country is sufficiently creditworthy to obtain a so-called "voluntary" loan, it has to pay a higher interest rate than its less creditworthy fellow debtors. This creates a clear "moral hazard" - the worse the management of the economy, the lower the interest rate you have to pay.

Alexander Nicoll

Japan as a suitable leader

"MUST WE starve our children to pay our debts?" was the question once posed by Julius Nyerere, of Tanzania. Bankers and finance ministers checking into opulent Washington hotels for the annual IMF-World Bank meetings this month may have little sympathy for crude appeals of this sort. But they might reflect that, after a series of surprising developments in 1987, the "debt crisis" is entering a new and much less predictable phase.

Nobody at last year's annual meeting, for example, would have guessed that Japan would be willing - however tentatively - to adopt a leadership role in the crisis. Yet this seems to be happening.

Earlier in the year, Mr Yasuhiro Nakasone, the Japanese Prime Minister, promised to recycle to the Third World a portion of Japan's huge external surplus. The sum mentioned - $20-30bn over three years - is tiny if set against the capital requirements of developing countries. But it is a step in the right direction - no other surplus country, such as West Germany, has offered to do anything comparable.

Perhaps more significant, Mr Kiichi Miyazawa, Japan's Finance Minister, has promised to put forward fresh proposals for easing Third World debt burdens at this month's meeting. He has already expressed interest in schemes that aim to convert short-term bank loans into long-term securities.

Japan's emergence as a policy-maker and opinion-former on debt would be entirely logical. It is the world's largest creditor nation. Moreover, the US is in a poor position to offer either advice or practical help. With rising domestic inflation, a weak currency and a rapidly increasing external debt, the US may itself soon face a Latin American-style adjustment.

A second surprising - and equally welcome - development this year concerns attitudes towards sub-Saharan African debtors. Who, a year ago, would have expected Mr Nigel Lawson, the UK Chancellor, to be championing a debt relief scheme for the continent?

The UK proposal, which was outlined at the IMF interim meeting in April, has three elements: conversion of old aid loans into grants; lengthening of repayment periods from 10 years to 15 or 20, with a grace interval of up to 10 years; and reduction of interest rates on official debt to "well below" market rates. Countries that could qualify for the scheme have total medium and long-term debts of around $50bn.

So far Mr Lawson has failed to persuade his Group of Five colleagues to support the initiative. The US and West Germany are particularly chary of extending relief to anybody, however poor. But they should recognise that the Chancellor's scheme is motivated less by charity than by a pragmatic acceptance of reality.

UK officials satisfied themselves that, given plausible projections for growth, interest rates, commodity prices and so forth, the sub-Saharan debtors had no prospect of servicing their debts. The economic resource cost of granting relief to people who cannot repay is zero, as Mr Lawson has recognised.

The UK sub-Saharan initiative, and other similar schemes, are likely to gather increasing support. But they raise the serious question, why should Africa be the only recipient of explicit relief? There are countries in both Latin America and Asia with very large debts, very low per capita incomes and very poor growth prospects that are equally deserving.

The US is not well placed to help or advise. It may itself soon face a Latin-American style adjustment.

Japan's tentative willingness to take a lead on debt and the UK's advocacy of African relief are examples of changing attitudes in the developed world. But the two other players in the debt saga - the commercial banks and the debtors themselves - have also modified their positions significantly.

The commercial banks, led by Citicorp, have greatly increased their loan loss reserves. Most have now provided for 25-30 per cent of their Third World exposures. In opting suddenly to raise their reserves, the banks have made a mockery of the past statements of both their chairmen and auditors. How could reserves of, say, 10 per cent have been certified as prudent and accurate in last years' accounts if three times that amount is necessary today? The debtors' prospects may have darkened, but not that much.

Mr James Baker: must know that debt securitisation is favoured

The banks have tried to present higher reserves as a responsible move that stregthens their hand in future negotiations with debtors. The likelihood is that it will do the opposite. Even before the round of increased provisions, Third World debt was trading in secondary markets at anything from 10 to 70 per cent of face value. The effect of the higher reserves was sharply to reduce the market value of the debt.

This was entirely logical: why should the market - or, for that matter, the debtors - disagree with the banks' judgment that the probability of repayment had fallen dramatically?

What about the attitudes of the debtors? These too have changed radically. In the early stages, most were prepared to accept short-term austerity programmes imposed by the IMF. These had largely counter-productive effects and are no longer acceptable anywhere in Latin America. Some countries, such as Mexico and Argentina, are persevering with growth-orientated structural adjustment programmes, but several have simply stopped paying interest.

Brazil, of course, is the prime example. It has imposed a debt service moratorium for seven months, and yet does not seem on much worse terms with its creditors than before the unilateral action began. It recently had the nerve to suggest the conversion of a large portion of its short-term bank debt into long-term marketable securities.

The proposal was rapidly withdrawn after criticism from the US. But that does not detract from its symbolic significance. Brazil has shown that a debtor country can take the initiative in proposing solutions to the debt crisis. Moreover, in urging the securitisation of its debt, Brazil was standing on very firm ground. Mr James Baker, the US Treasury Secretary, must know that securitisation of debt is favoured not only by many leading academics and commentators, but also by bankers themselves, when speaking or writing in a private capacity. The terms Brazil proposed may have been too favourable for the debtor - but that is to be expected of an opening bid in what has become a game of bluff and counter-bluff.

Finance ministers and cental bankers in the rich north will not be able to veto radical solutions to the debt crisis indefinitely. Unless they can find some way of substantially raising the growth rate of world output and trade - and this looks unlikely - the debtors will eventually find a way of linking their repayment to the market, rather than the book, value of their debts. Securitisation on favourable terms may not be an option this year, or even in 1988, but its time will come. It makes more sense than letting children go hungry.

Michael Prowse

Policy co-ordination

How to make sense of a buzz-word

The only hope of coming to grips with the large imbalances in the world economy is to look away from short-term financial market fluctuations or business cycle movements, and take a medium-term view, writes Samuel Brittan. This helps to avoid many popular fallacies.

INTERNATIONAL economic co-ordination is usually a polite way of calling for changes in other countries' policies. Europeans call for a reduction in the US Budget deficit, or Americans call for fiscal expansion in Japan and Germany.

Sometimes, however, it is used as a grand way of stating their case by policy dissidents inside their own countries. Americans who have always been opposed to Reagan-style deficit finance weep loudly and publicly about the strains it is imposing on the world economy. European Keynesians, who are in any case opposed to the "sound money" policies now in vogue, sound more impressive if they can talk about filling the hole in the world economy which might be created by a correction of either or both the US twin deficits.

International economic co-ordination is thus blocked not only by conflicting political goals, but by conflicting ideas about how both the global and the domestic economies' function. So long as this is so, the "objective indicators", which the IMF is developing, are a series of numbers in search of a theory.

Do Budget deficits cause a country's exchange rate to appreciate or depreciate? Does monetary ease worsen the trade balance; or may it improve it by bringing about a real depreciation?

Extra stimulation will not correct an imbalance with us since 1982-83.

Not only are there no agreed answers to such questions among economists, but there may be no generally valid answer. So long as these questions are asked in a short-term context, too much will depend on the reaction of ultra-volatile financial markets, political credibility or confidence effects, which will go in different directions at different times.

The only hope of coming to grips with the large imbalances in the world economy is to look away from short-term financial market fluctuations or business cycle movements and take a medium-term view.

By "medium term" is meant not something vaguely virtuous, but a period - say five to eight years - in which real output and income are mainly determined by underlying trends of productivity and demographic movements, and can be taken as given from the point of view of macro-economic policy, at least as a first approximation.

Taking output as given certainly does not mean that economies will move to "full employment". Nor does it mean that the national or international economy is self-stabilising in any very strong sense. It simply means that we are talking about trend lines of output and real income, rather than fluctuations around these trend lines. And one can easily accept that better short-run demand management policies could have improved the underlying trends shown in the table.

All that needs to be assumed for the medium term approach in its technical sense is that the stability of the rather disappointing growth rates since 1973 *is fairly deep-seated for most* countries; and that we should not count in advance on being able to rise above recent trends by the ingenious manipulation of monetary, fiscal or exchange rate policy.

The best simple non-algebraic discussion I know of basic medium relationships comes not from any of the headline names, but from a University of Freiburg economist, Oliver Landmann (*Current Issues in the International Macroeconomic Policy Debate*, available in English from Institut fur Allgemeine Wirtschaftsforschung der Universitat Freiburg, Europaplatz 1, D-7800 Freiburg, W. Germany). Readers are referred to it for a fuller treatment than I can give here.

Dr Landmann starts with the identity, which says that the current account deficit is equal to the excess of domestic investment over domestic savings; and the other way round for a country in surplus. This is made into an operational theory by stating that, in the medium term, the trade balance adjusts to capital flows and not the other way round.

The real rate of interest is determined in the capital market, which in turn determines the net inflow from (or outflow to) overseas, and thus both the current balance and the real exchange rate.

Rather than elaborate the theory any further here, I will follow Dr Landmann in using it to explain some popular myths and half truths.

● **Myth No 1:** *Surplus countries should stimulate their economies to help reduce trade imbalances.*

To call this a myth is not to endorse Japanese or German macroeconomic policies. But extra stimulation will not correct a basic imbalance that has been with us since 1982-83. It will not increase net savings in the US, and *is unlikely to* reduce net savings in Japan or Germany, especially if real income is given in the medium term.

● **Myth No 2:** *Protectionism may be undesirable and destabilising. But it will tackle the US trade deficit if all else fails.*

This belief involves the fallacy of composition: moving from what is true for a particular industry to what is false for the national economy.

Even if there is no retaliation, protection cannot slash the US trade deficit in the medium term, unless it increases US savings or reduces US domestic investment. Unless it does, the result will simply be an appreciation of the real dollar exchange rate, which will neutralise any competitive edge given by trade policy. The one way protection might help would be if it took the form of a revenue raising surcharge which seriously reduced the Budget deficit. But if that is the mechanism, why is it preferable to a more general US tax increase?

● **Myth No 3:** *To solve its trade problem, the US needs to forget this whole "macro" discussion and concentrate on becoming "more competitive".*

The view that real depreciation does not work is based on ignoring well-known lags often called the "J-Curve." There is a lag before exchange rate changes are passed through in local currency prices, and a lag before these price changes affect trade volumes. The adjustment takes longer the more volatile has been the exchange rate and the larger and more deep-seated the trade deficit.

International Growth Rates

Real GDP % change annual rates

	OECD Europe	USA	Japan	UK
1964-73	4.5	3.7	8.9	3.0
1973-79	2.4	2.6	3.6	1.3
1979-87*	1.7	2.1	3.6	1.8

*Includes forecasts by OECD (June 1987)
Principal Source: OECD

An improvement in non-price competitiveness would help to reduce the required real depreciation of the dollar, and thus the terms of trade loss. But it would not avoid the need for a savings-investment correction. Nor is it likely to occur on the time scale required.

More interesting than the myths are the half-truths. For instance:

☐ **Half-truth No 1:** *The dollar has to fall a lot more to solve the US trade problem*; and **Half-truth No 2:** *Devaluation cannot solve the US trade problem.*

The exchange rate is merely the transmission mechanism by which a reduction of the savings-investment imbalance (for instance, through a lower US budget deficit) is translated into an improved current account.

Those who put all the emphasis on devaluation overlook the domestic savings imbalance; and those who brush aside exchange rates ignore the need for a transmission mechanism.

Dr Landmann regards the 40 per cent fall of the dollar since 1985 as providing a signal to move US resources into export and import savings, ahead of the required retrenchment of US domestic spending. But if this retrenchment does not come, inflation could be (or is being) reignited, and will gradually erode the newly-won US competitive advantage.

Thus the essential point is not that real depreciation is ineffective, but that, without retrenchment of domestic spending, it is unsustainable.

☐ **Half-truth No 3:** *The US current deficit would benefit from fiscal relaxation Germany and Japan.*

Exchange-rate swings have provided plenty of false signals.

In contrast to the upholders of Myth No 1, advocates of this half-truth are not asking for general stimulation. They accept that, in the medium term, higher budget deficits are likely to lower savings. They simply say that the US current deficit should be tackled by reducing foreign savings, as well as by raising American savings.

The proposition is correct. It is a half-truth only because its advocates rarely realise that the "improved" world balance will be achieved with high average budget deficits, high world real interest rates, and low world investment. The policy amounts to asking the creditor countries to curb the supply of funds to finance US public and private consumption, and thereby drive up American interest rates. It is like an alcoholic asking the liquor store to increase the price of liquor.

Dr Landmann's conclusion, *that the US must increase its* savings rate, is inevitably prosaic after the myths and the half-truths. But we are not done yet.

The Freiburg writer is not innocent of Keynes. He accepts that a big reduction in the US Budget could create short-term demand deficiency in both the US and abroad. His own solution is that monetary policy should be relaxed sufficiently to maintain the growth of Nominal GDP in any country where it happens to falter, while fiscal policy is directed to medium term international balance.

Although he genuflects to the Bundesbank, by calling his policy a velocity-adjusted monetary objective, the rulers of the German central bank are a very long way from accepting this obligation, as can be seen by their tightening of policy this summer. No amount of emphasis on fundamentals vindicates the Bundesbank's knee-jerk technocratic conservatism.

It is not in my nature to agree with any other writer on everything; and I take slight issue with Dr Landmann's preference for each country using monetary policy to achieve its own demand objective, leaving nominal exchange rates to fluctuate freely.

Whether or not the enormous exchange-rate swings of the last few years have been strict examples of overshooting, they have provided plenty of false signals, disrupted the sectoral balance within economies, and thereby reinforced the forces of protection.

The real exchange rate changes necessary to give the *right signals already take place* between Texas and California, or Scotland and England - where they are called price and wage changes. The periodic French franc-DM realignments have not been notably more successful in realigning real exchange rates.

The alternative *is* to base national policies on agreed - if changing - exchange rate ranges. Demand management would then be assigned to the Group of Five level at which global interest rate and monetary policy would be determined. This makes more demands on international co-operation, but might give less bad signals to domestic producers than the vast gyrations of the dollar-DM, dollar-yen, and sterling-Ecu rates of the 1980s.

But, however controversial these monetary issues, the slo*gan to remember at the end of* the day is that trade imbalances are not a monetary problem, but one of swings and investment. The role of money is to oil the wheels of the engines of fundamental adjustment.

Encouraging them to spend more wouldn't necessarily make them save less

Ashley Ashwood

Structural policies

The micro decade

THE 1980s may be remembered in economic policy-making circles as the decade when politicians began to worry seriously about microeconomic problems. Rhetoric, as usual, is running ahead of action, but expressions like "structural rigidities" and "fiscal neutrality" are no longer utterly unfamiliar.

The interest in microeconomics marks a sharp departure from established post-war traditions in most industrialised countries. Economic policy in the past was almost synonymous with macroeconomic policy: squads of officials monitored the evolution of macroeconomic aggregates like consumption, investment and exports and formulated fiscal and monetary policies that were intended to affect the course of the economy as a whole.

By contrast, relatively little attention was paid to specific sub-sectors of the economy, such as labour markets. Little attempt was made to ensure that the rules governing the activities of companies and individuals were in accordance with the recommendations of microeconomic textbooks.

Policies advocated on social or political grounds - for example, constraints on the rights of companies to sack workers - were rarely subjected to a test of economic efficiency; nobody asked whether the costs, in terms of loss of flexibility, might outweigh the obvious benefits.

The policy focus on macroeconomics was - and largely still is - reflected in the staffing of finance and economics ministries. Although many academic economists would argue that microeconomics represents the true core of the discipline, a high proportion of public sector economists would probably classify themselves as macroeconomists. Indeed, many concentrate on macroeconomic modelling and forecasting - activities whose value is questionable and which are perhaps often best left to the private sector.

Why have politicians and officials begun to think harder about structural issues? The most important reason is the fact that the standard macroeconomic prescriptions have, since the early 1970s, apparently failed to deliver the goods. On the whole, governments have been unable to combine low inflation with rapid growth and low unemployment. Microeconomic initiatives appear to offer an extra degree of freedom: a way of raising an economy's growth rate without stoking up inflation.

Structural reforms have also struck a chord in the 1980s because governments have been keen to reduce budget deficits. Deregulation and liberalisation may be hard policies to sell to electorates, let alone to the businesses affected, but at least they do not usually cost much money. Microeconomic policies are thus popular, partly because they are simply the cheapest available recipe for growth.

What are the main structural impediments to growth and high employment? A recent OECD report, *Structural Adjustment and Economic Performance*, emphasises the damage done by creeping protectionism in international trade. Non-tariff barriers now affect a quarter of industrialised countries' imports. Between 1973 and 1983, the proportion of world automobile trade covered by restrictions rose from under 1 per cent to nearly 50 per cent.

Standard macroeconomic prescriptions have failed to deliver the goods.

It also stresses the burdens imposed by rising industrial, regional and agricultural subsidies. Subsidies as a proportion of OECD industrial value added rose from around 2.5 per cent in 1960 to over 8.5 per cent in the early 1980s. Support for agriculture is even heavier: the cost in terms of reduced economic efficiency in the OECD area as a whole is estimated at over $100bn. This reflects the extent to which government intervention has persuaded farmers to produce the wrong amounts at the wrong prices.

A third structural impediment identified in the report is the growth of public sectors during the post-war period. This has resulted in high marginal and average tax rates in most industrialised countries. The OECD calculates that by 1983 the typical production worker was facing a total tax liability equivalent to 40 per cent of his income, and a marginal rate on the last pound earned of more than 55 per cent.

Large public sectors inevitably mean heavy tax burdens. But the impact on economic efficiency has been much greater than was necessary, because of the poor construction of fiscal systems. Most are riddled with exemptions for special interest groups. Yet erosion of the tax base means that tax rates are higher than would otherwise be the case.

Over the years, governments have also used the tax system to further all manner of political and social goals: the result is that individuals and companies are constantly persuaded to take decisions that would not be rational in the absence of special fiscal incentives. Many economists urge the creation of more "neutral" tax systems.

A fourth set of microeconomic distortions includes direct controls imposed by governments on, for example, prices, wages, dividends and exchange rates. Some of these have been phased out in recent years. Incomes policies, for example, are less popular than in the 1960s or 1970s. On the other hand, many OECD countries still have minimum wage laws that free-market economists believe exacerbate unemployment.

The elimination of structural rigidities can undoubtedly improve the growth potential of economies. But the scale of the prospective gains from deregulation and liberalisation are hard to gauge.

Some economists, for example, have argued that the gains from introducing a neutral tax system would be worth only a fraction of a percentage point of GNP. And sceptics point out that microeconomic distortions have been more serious in Europe than in the US throughout the post-war period, yet until the 1980s, European economies enjoyed lower unemployment and faster growth.

They also note that many governments have succeeded in eliminating a range of structural rigidities since the turn of the decade. Yet the return in the shape of faster non-inflationary growth seems slow to arrive. This could be simply because structural reforms pay off only in the medium to long term.

The alternative and more depressing possibility is that politicians are putting too much faith in supply-side structural policies. One thing is certain: they will never be a substitute for the right macroeconomic approach.

Michael Prowse

The eyes of ministers and bankers are still on the dollar

A further fall looks likely

Ashley Ashwood

Yes, it did go up for a moment

TWO YEARS after the Plaza agreement to force the dollar's value lower, finance ministers and central bankers at this month's meeting of the International Monetary Fund will still be exercised by a falling dollar and massive global trade imbalances.

Despite the large measure of stability on foreign exchange markets since the Louvre accord, the view among most economic forecasters is that, sooner or later, the dollar will have to decline further if the US trade deficit is to be reduced to a sustainable level.

The February agreement by the Group of Seven leading industrialised nations aimed to promote at least a pause on currency markets after the 40 per cent fall in the US currency's value since its 1985 peak.

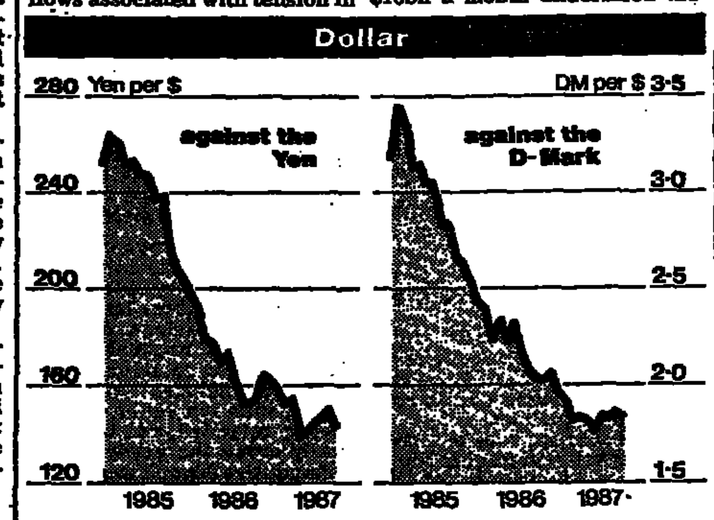
The perceived risk was that continuing dollar decline would tip both the US and the rest of the world into recession. At the same time it would obscure the beneficial impact on US competitiveness of the depreciation which had already occurred.

After an initial volatile period in the immediate aftermath of the accord, when the dollar had to be propped up by co-ordinated central bank intervention, the US currency then appeared to get back on a firm footing.

The monthly US trade figures showed a gradual improvement in the deficit which, although modest, was enough to support the view that progress was now being made.

By late July and the first half of August, the dollar had started to appreciate quite strongly, partly because of speculative flows associated with tension in the Gulf which pushed oil prices up above $20 per barrel.

That rebound, however, was shortlived. The publication of US trade figures for June and July showing a renewed widening of the deficit to around $16bn a month underlined the fact that there would be no instant solution to the imbalances.



The dollar lost 5 per cent of its value in the week after publication of the June trade figures, despite almost daily intervention in its support by the Bank of Japan. By early September renewed *co-ordinated* central bank intervention was needed to stop the currency's slide.

The currency markets' focus on the US deficit and the parallel surpluses in Japan and West Germany measured in dollars has obscured a significant turnaround in the volume of trade flows. The latest Japanese figures, *for example, show a surge* in imports and relatively flat exports, while the US data provides a mirror image.

The sheer size of the original imbalances, however, means that those volume improvements will only very gradually be reflected in the dollar trade figures. That in turn has persuaded most economists that the US *currency* will face renewed attacks on foreign exchange markets.

Despite this month's ½-point rise in the US discount rate, there is also a general view that, on balance, the US administration would like to see a modest further decline in the dollar, perhaps to Y135 and DM1.75.

In raising the discount rate, Mr Alan Greenspan, the new chairman of the Federal Reserve, signalled that he would not be indifferent to a rapid dollar slide. But he said nothing to suggest that he is intent on pegging its value indefinitely at current levels.

Mr David Morrison, Chief International Economist at US securities house Goldman Sachs in London, said he believes the dollar's trend is still downwards but is nevertheless relatively flat.

He makes the point that it would make no sense for the US to lock itself into current exchange rates which would imply a consistent loss of competitiveness, because the US has a higher inflation rate than that of its major trading partners.

The US is widely expected to have an inflation rate of at least 5 per cent next year, while inflation in Japan will be nearer to 1 per cent and perhaps just under 2 per cent in West Germany.

Goldman Sachs' 12-month view is that the dollar will fall *to DM1.72, Y135 and 1.70* to the pound.

Mr Paul Chertkow, Director of Currency Research at the London securities house Hoare Govett, agrees that, on fundamental grounds, particularly in view of persistent trade imbalances, the *dollar should fall further*.

However, the handling by the US authorities of any further modest depreciation in the dollar's value is the subject of intense speculation.

Policy has to be seen in the *context of the rising protectionist* chorus in Congress, which could be partly defused by allowing *the dollar to fall*. Against that, a continuing depreciation would threaten further rises in interest rates in the run-up to next year's presidential election.

Janet Bush

Inflation

US likely to face pressure

A RECOVERY in world commodity prices and the far-reaching effects of the dollar's managed depreciation have helped to turn around world price trends, and it is now clear that inflation hit a trough during 1986.

Most major economic forecasts suggest that inflation will continue to rise slightly from current levels over the next year or so, but that the general expectation is that it will nevertheless remain relatively subdued.

Some of the upward pressure on prices can be attributed to the easier monetary stance of surplus countries like Japan and West Germany, whose policies have been tailored to promoting stability for the dollar.

In the US, the effects of the earlier sharp dollar depreciation are beginning to show in a marked acceleration in inflation, expected by many economists to reach 5 per cent by the end of this year.

Recorded inflation in the area covered by the Organisation for Economic Co-operation and Development had decelerated sharply in 1986, with average consumer prices increasing by 2.6 per cent, compared with 4.5 per cent in 1985. The halving of the oil price at the start of the year provided a step reduction in input prices, while relatively sluggish economic growth ensured weak international commodity markets.

Now the OECD believes inflation will increase slightly to around 3.5 per cent this year and perhaps marginally higher in 1988.

Britain's National Institute of Economic and Social Research is forecasting that consumer prices in the seven leading industrial nations - the US, Japan, West Germany, France, Italy, Canada and Britain - will increase by 3.2 per cent this year and 3.4 per cent in 1988.

The Bank of England said in its August Quarterly Bulletin that the outlook remained uncertain. Non-oil commodity prices have risen by some 14 per cent in SDR terms (20 per cent in dollar terms) from their trough in August last year, but the Bank noted there was some influence from strikes and other special factors. Earnings growth in most industrialised countries remains low.

Commodity prices have picked up, but the trend may not continue

Prospects vary from country to country. In most leading industrialised nations apart from the US and, arguably, Britain, inflation is expected to return to the core or underlying rates seen before the collapse in oil prices.

Underlying inflation rates are roughly 1 to 1.5 per cent in Japan, 2 to 2.5 per cent in West Germany, probably 4 to 4.5 per cent in the US, and 3.5 to 4 per cent in both Britain and France.

In many countries, particularly in Europe, there is an excess supply of labour which should mitigate upward pressure on wage settlements as measured inflation rates edge up.

Although commodity prices have picked up, there are doubts over whether the trend can be sustained. World demand is projected to be weak and developing countries, which are the key exporters of commodities, have to keep the level of sales up in order to service their debt. There is also an excess supply of agricultural produce after good harvests this year, strides having been made in technical innovation and subsidised overproducing in Europe.

The OECD said in its latest half-year report that any tendency towards a more broadly-based accleration in the rate of inflation seemed limited to the US and Britain. In the US, labour markets appeared to be relatively tight, and import price pressures stemming from the earlier dollar depreciation seemed strong. In Britain, inflation was expected to increase due to persistently high wage growth in recent years, weaker productivity growth and the effects of last year's fall in the pound's value.

The OECD said: "In both countries the room to absorb additional cost pressures in profit margins appears relatively limited given that the terms of trade have been developing less favourably than elsewhere."

Concern about domestic monetary conditions in Britain prompted the authorities to raise base lending rates by one percentage point to 10 per cent last month. The Bank of England pointed particularly to the persistently high level of average earnings growth and substantial credit growth as a cause for concern.

In common with other major countries, Britain has also seen an acceleration in broad money supply growth. Some of this growth can be explained - and is by the governments of the countries concerned - by the fast pace of financial innovation, but there is still uncertainty whether fast broad money growth could signify an excess of liquidity in these economies.

Broad money growth, which was bloated further by central bank purchases of dollars after the Louvre accord in late February to stabilise currencies, lay behind a cautious firming in market interest rates in both Japan and West Germany earlier this year.

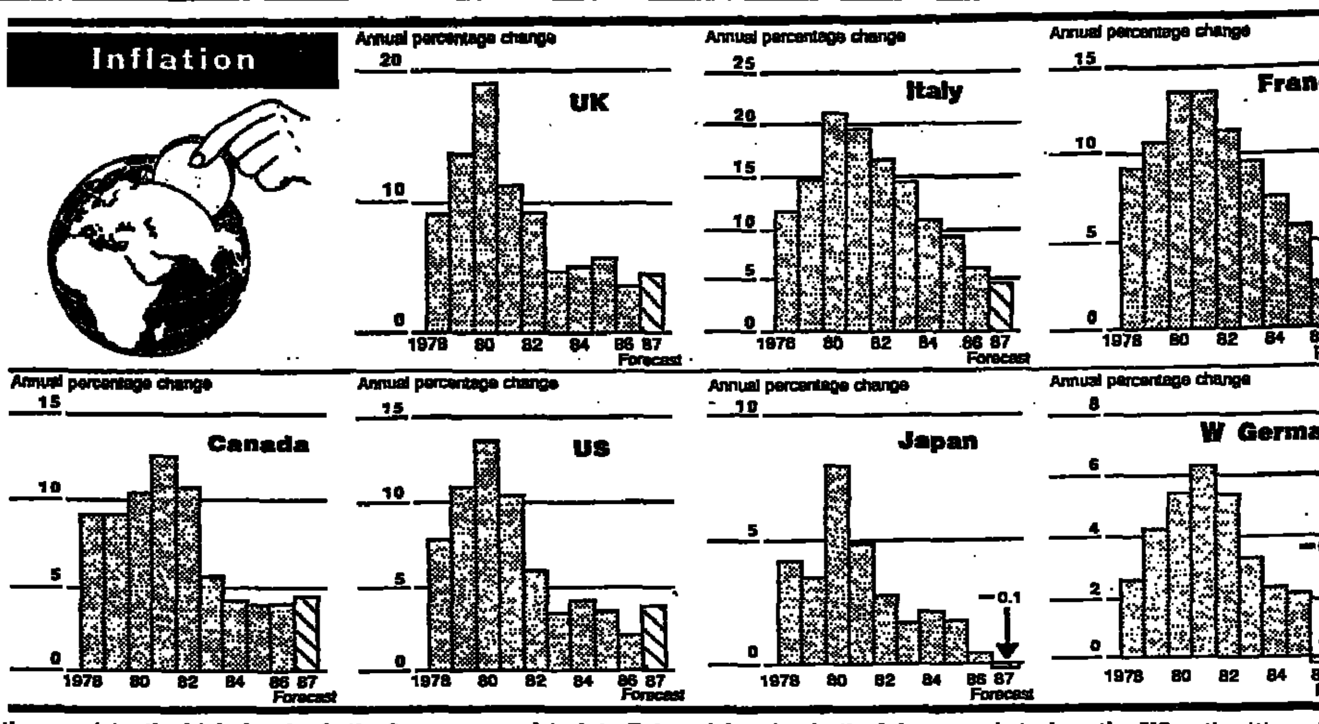
The US, however, stands out as the nation which appears to face quite substantial inflationary pressures. Salomon Brothers, the US securities house, expects consumer price inflation of just over 5 per cent in 1987 and of 6 to 6.5 per cent next year.

It points out that, unlike that of other industrialised countries, US unemployment has fallen substantially and that a tightening in the labour market is likely to start pushing up wage demands. Sluggish productivity growth is expected to put upward pressure on unit wage costs, and capacity constraints in the primary processing industries will transmit price pressures to other sectors.

The dollar's 40 per cent depreciation since the beginning of 1985 has led to a surge in industry's input prices, now growing at a rate of roughly 10 per cent. Salomon expects non-oil import prices to jump by an annual 13 per cent in the second half of 1987.

The greatest uncertainty is how the US authorities will respond to these pressures. Mr Alan Greenspan, the new chairman of the US Federal Reserve, is thought to share Mr Paul Volcker's anti-inflation stance. This month's rise in the US discount rate was clearly aimed at establishing his credentials from the outset. The view of many economists is that further rises in interest rates will be needed in order to contain upward pressure on inflation, but that the presidential election may seriously limit Mr Greenspan's room for manoeuvre.

Janet Bush



Tax reform

Working with the market

PRESIDENT REAGAN probably would not appreciate the irony. As his opponents in Congress insist that tax increases are essential to reduce the US Budget deficit, many of the US' industrial partners are looking to follow its earlier example of progressive reductions in tax rates.

Tax-cutting - or, more accurately, reducing tax rates - has become the economic fashion of the 1980s, in much the same way that monetarism dominated policy-making in the late 1970s.

Much has been done already to reverse what were seen as the worst excesses of the 1970s, when marginal rates of income tax sometimes exceeded 90 per cent. Whether this supply-side fervour, however, has much further to run against a background of entrenched fiscal conservatism in Europe and Japan and the unsustainability of the US Budget deficit is more difficult to answer.

Since 1981, at least 10 western industrial nations have set up study commissions

The drive for tax cuts - and tax reform - came at the end of the 1970s, after decades in which the tax burden rose inexorably in most industrial nations to support burgeoning welfare states. Countries as diverse as Sweden and New Zealand have concluded that income tax rates should come down again.

Since 1981 at least 10 western industrial nations have established commissions of one sort of another to study proposals for an overhaul of their tax systems.

The key impetus recently, of course, has come from the US, where the tax reform programme passed last year aims to bring the highest rate of income tax down to a nominal 28 per cent. (The effective rate will be 33 per cent). But as early as 1979 countries like Britain had moved some way in the same direction with cuts in their very high marginal tax rates.

Over the next six months or so Japan, West Germany, France and Britain are all expected to implement sizeable tax-cutting packages. The Japanese government unveiled a Y1,000bn ($7bn) set of reductions during the summer. West Germany plans DM14bn ($7.7bn) of cuts next January as part of a three-stage programme ending in 1990, and France is introducing a FF33bn ($5.5bn) package to lower both direct and indirect rates. Mr Nigel Lawson, Britain's Chancellor, is intent of reducing the basic rate of income tax from 27p to 25p and has given a clear hint that the top rates - currently as high as 60 per cent - are also set to come down.

The basic reasoning is much the same in all countries, and stems in part from a more general shift in official economic thinking away from macro-economic demand management towards micro-economic policies designed to improve the supply-side of industrial economies.

In that context, lower tax rates fit into the framework of a wider drive towards cutting back the role of governments, allowing freer play for market forces, and seeking the removal of structural rigidities.

Governments, however, have also identified more specific rationale for reducing, in particular, the highest income tax rates. The most obvious, and most frequently cited by governments and by organisations like the Organisation for Economic Cooperation and Development, is that tax rates of, say, 70 per cent have a major disincentive effect on work and risk-taking. In parallel, they increase incentives for evasion and avoidance, distort economic decision-making, and ultimately reduce the growth of output.

The plethora of concessions and exemptions that have been grafted on to tax systems with very high rates also generate inequalities between taxpayers in the same income groups, undermining, in economists' jargon, horizontal equity.

Reductions in the highest rates of tax have therefore generally been accompanied by removal of many tax benefits for the high-paid - and a hope that tax shelters and avoidance schemes will cease to be worthwhile.

The trend towards ironing out such inequalities has taken precedence over the more traditional role of progressive tax systems - the establishment of greater vertical equity through redistribution.

As a recent OECD report put it: "The income tax system is certainly a less effective tool for achieving an equitable income distribution than are full employment and well-functioning social policies."

But cuts in marginal rates are not generally introduced in isolation. As well as seeking the gradual abolition of tax privileges, governments have tended to accompany lower income tax rates with a widening of the tax base - both within the income tax system itself and by a switch to indirect taxes.

The theory is that taxes on consumption, rather than income, are closer to being neutral in their impact on savings, investment and other economic decisions. Thus, in Britain in 1979, the Conservatives' initial cuts in income tax were accompanied by a doubling in the rate of value added tax.

Widening the base within income tax systems has tended to focus on taxing sources of income - such as pensions and social benefits - which have so far been excluded, as well as the removal of direct tax subsidies.

If the present tax-cutting philosophy is widely shared by the governments of industrial countries, the practice is not as straightforward. Political and budgetary reality has proved decidely intrusive. In the process many of the so-called tax cuts have proved illusory rather than real, involving a switch in the tax burden rather than any absolute reduction.

Britain is a good example. Although the Government makes much of its reductions in the basic rate of tax, the OECD has calculated that the overall burden of taxation actually rose from 33 per cent of national income in 1979 to just over 39 per cent in 1986. Income tax rates may have come down, but the tax system ensures that the Government's revenues actually rise each year because income tax thresholds are linked to prices and not wages.

It is not only in Britain, however, that the tax burden has risen. For its 24 member countries the OECD estimates that the proportion of national income taken in taxes rose by three percentage points between 1979 and 1985.

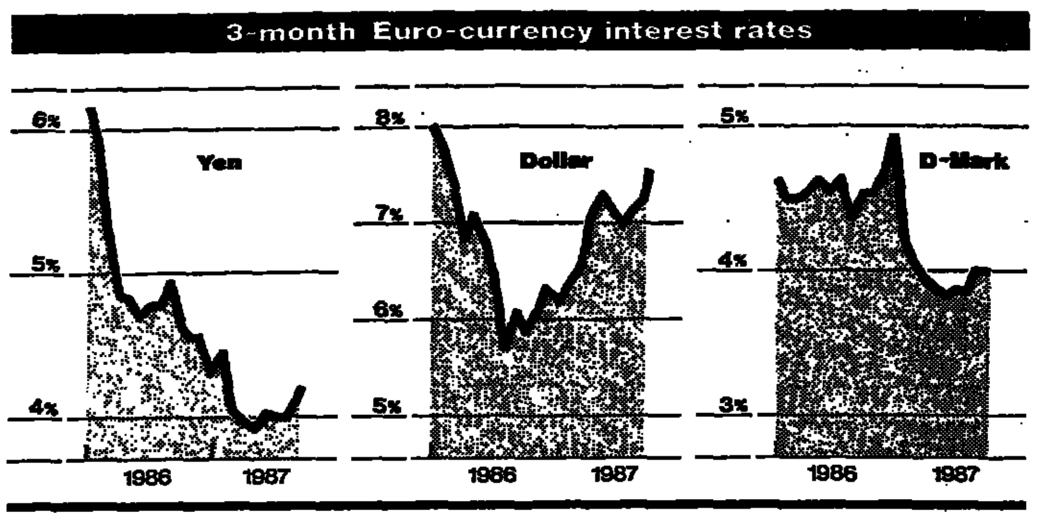
The latest wave of tax reductions are also likely to prove rather more modest than the raw figures suggest. In France, for example, there will be a substantial offset in the form of higher national insurance contributions. Japan as made it clear that the cost of its income tax cuts will eventually be clawed back in the form of additional indirect taxes.

The arguments of American supply-siders - that lower taxes actually increase revenues by stimulating faster economic growth - hold little sway in Tokyo and Bonn, where officials point to the massive US Budget deficit as the clearest possible evidence to the contrary.

Philip Stephens

The global picture is of rising interest rates, which would normally be associated with an increase in economic growth

US economy a key problem



INTEREST RATES have sent out worrying signals for the *world economy this year. Dollar* rates have come under sharp upward pressure associated with the huge and unyielding US balance of payments deficit and the associated slide in the currency. But rates in other leading currencies have also tended to edge higher in recent months.

Whereas, in the early part of the year, Japanese interest rates were falling sharply - with the 10-year government bond rate down to 2.77 per cent at one stage in February - they have *since bounced back to nearer* 6 per cent. In the process, they have put severe pressure on the practitioners of so-called "zaitech", or corporate financial engineering, leading for instance to the heavy losses suffered by *Tateho Chemical.*

Sterling rates have also been moving upwards since midsummer, highlighted by the half-point jump in bank base rates in early August which triggered a *severe shakeout in the* gilt-edged market.

Germany presents a more stable picture, and the strength of the currency has helped short rates to remain low. But there are signs of some easing of fiscal policy in response to the poor economic growth rate - *which may be only 1.5 per cent* for 1987 - and bond rates have risen since the springtime low.

What does the global picture of generally rising rates imply? Normally, higher interest rates would be associated with an increase in economic growth rates. But in aggregate, the leading industrial economies could well show lower economic growth in 1987 than for several years past, with upturns in Japan and the UK being offset by weakness in the US, Germany and elsewhere.

One possibility is that economic growth is running more strongly than the forecasters expect. There has been some support for this hypothesis from the recent surge in commodity prices. But this may have had its speculative elements, associated for instance with tension *in the Gulf, which certainly* caused flurries in the oil price.

Another fear is of resurgent inflation. In several countries there has been some pickup in the rate of increase of consumer indices, though 1986 - a year when oil prices actually fell - was arguably deceptive as a base. If prices are rising rapidly, investors will seek to obtain higher yields to protect themselves.

A number of countries - the UK is perhaps the most notable example, but Japan is also affected - are struggling with above-target monetary growth, which could imply higher inflation in due course. Active debates are going on in such countries about whether high monetary growth poses a threat *which needs to be countered by* higher interest rates, or whether structural factors - including the growth of corporate treasury activity - are responsible, in which case the implications for inflation may be benign.

Elsewhere, hints that Germany may adopt a less rigid anti-inflationary line in favour of boosting growth could have implications for the policies of the whole EMS block, possibly after another minor currency realignment.

At any rate, gold has enjoyed a speculative surge this year, though as usual it looks better in terms of dollars than most other currencies, and the whole inflationary scare may be somewhat overdone.

The central problem remains the US economy, and to some extent the Japanese economy which is in many respects its mirror image. The July trade figures, showing a record \$16.5bn deficit, indicated no improvement in the economic balance. The US authorities appear to be reconciled to a further decline in the dollar on the foreign exchanges. Nevertheless, the incoming chairman of the Federal Reserve, Mr Alan *Greenspan, opened his account* with a half-point rise in short interest rates, *suggesting that* he is not prepared to let the economic and monetary slide continue entirely unresisted.

The US bond market *is* now characterised by almost unrelieved gloom. Long rates have been heading *fast* towards double digits. After a number of very good years in the early 1980s, dollar bond investors have experienced serious capital losses, with a negative return of some 15 per cent so far this year on a 30-year Treasury bond, even allowing for interest received.

A number of the leading US investment banks have suffered serious losses from successive shakeouts in the bond markets, both in the second and third quarters. The main problems have arisen not so much from falling bond prices in themselves as from the failure of *hedging techniques to work* properly, a consequence of structural changes in the markets due to severe conditions.

There are said to be \$4,000bn worth of domestic dollar bonds in issue, a vast pool, and one which inevitably exerts strong influences over the markets throughout the world. It has, for instance, provided an outlet for the huge Japanese savings surpluses, and has therefore helped to sustain Japanese *bond yields.*

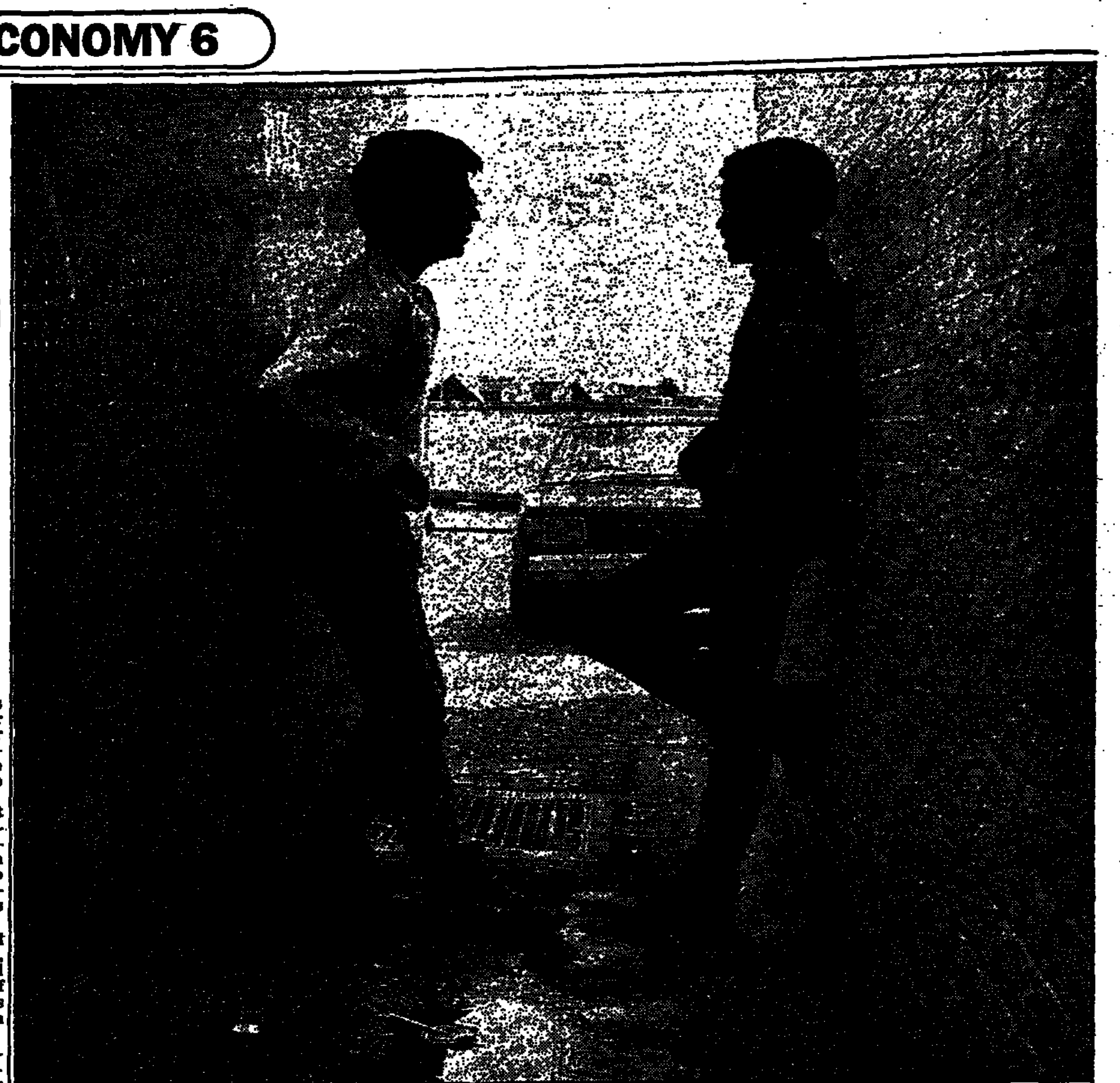
The US is sucking in vast amounts of capital; in the second quarter of the year the balance of payments deficit hit a record \$41bn. This is tending to drive up rates world-wide, despite the general sluggishness of the global economy.

Meanwhile, the Third World debt crisis continues to deepen, with banks around the world this year engaging in a round of *provisions and write-offs as* they seek to come to terms with something approaching reality.

*Part of that process is a wide*spread recapitalisation of banking balance sheets, including leading American and British banks, while the Japanese banks have also been boosting their ratios. Although much of the new capital has been in the form of equity, the calls must have had an effect on long-term interest rates.

Yet in these troubled times there are still havens of peace. Swiss bond *yields* have eased to historically low levels this year. Even in Switzerland, however, a *modest upturn in inflation (to* nearly 2 per cent in the year to July) and a sluggish economy are reminders, in a small way, of the pressures being experienced in markets around the world.

Barry Riley



Would giving them jobs really mean higher prices?

Hugh Routledge

Unemployment

Inflation fears cause inertia

THE INEVITABLE optimistic *gloss which will be put by gov*ernments of industrial nations on the economic outlook at this week's meeting of the International Monetary Fund will fall on the deaf ears of 31m people.

The number of people unemployed in the 24 industrial nations represented by the Organisation of Economic Cooperation and Development has been stuck at that level for the past 3 years. The prospects and policies now in view offer little hope that it will be any different in 1988.

Perhaps more alarmingly, there is a growing, if unacknowledged, consensus among governments that very little can be done to significantly reduce the number - representing over 8 per cent of the workforce - without re-igniting inflationary pressures.

That inertia is being reinforced by a more general downward revision of expectations, a trend underlined by a recent *IMF* report which suggested that industrial countries can expect a long-run economic *growth rate of barely 3 per cent* a year.

In countries like Britain, where *unemployment at around* 11 per cent is well above the average, there are are already *suggestions* that the present relatively rapid growth of the economy cannot be sustained without a renewed wage-price spiral.

In West Germany, where unemployment appears to have resumed an upward trend in response to *still-sluggish growth,* the accepted official wisdom is that the best the Government can do is to wait until the working population begins to decline in the 1990s.

Of course, the dismal aggregate picture masks some more optimistic signs. Employment growth in the OECD area has averaged between 1 and 1.5 per *cent since 1984, enough at least* to keep up with the rise in the labour force.

The US is continuing *to* show that, despite its massive trade deficit, its economy is resilient *enough to bring a steady fall the* number of people out of work. Countries like Sweden continue *to demonstrate* quietly that it is possible to have an unemployment rate of 2 per cent with any real inflation problems.

The fact, however, that a US unemployment rate of 6 per cent or so is regarded with envy in most of the rest of the industrialised world shows just how far the pendulum has swung. Even 10 years ago such a figure would have been regarded as politically and economically *unthinkable in virtually* every industrialised country.

The problems presented by *mass unemployment* are not confined to the level. With the huge increase in the number of jobless during the 1980s have come the associated ills of rising youth and long-term unemployment.

That in turn has contributed to a fragmenting of the labour market in many industrial countries, creating a core of relatively prosperous insiders with jobs and an increasingly distant group of unemployed outsiders.

These outsiders increasingly lack the skills or motivation *necessary to regain entry into* the labour market, while their moderating impact on the wage settlements of those in work has steadily diminished.

One implication drawn by governments of this so-called "hysteresis" is that there has been a substantial rise in what economists call the Nairu - the unemployment rate consistent with a *steady* inflation rate.

In parallel there is evidence that the capital stock in many countries, particularly in Europe, is no longer able to accomodate anything like full employment. Depressed demand and high real interest rates have meant that a disproportionate amount of investment in Europe has been devoted to capital deepening rather than capital widening.

The lack of physical capacity is particularly acute in Europe, where, according to some official estimates, the ratio of investment to output would have to double in order to raise the level of employment by 5 per cent.

The concept of a rising Nairu remains controversial. Some economists regards it as little more than a *post-hoc* justification of the present high rates of

Continued on page 7

Inertia on jobs

Continued from page 6

unemployment - if governments acted vigorously to reduce the jobless total, the Nairu would fall.

A much more fundamental division, however, focuses on the extent to which the backlog of unemployment built up in the early 1980s can be reduced through measures to strengthen demand in European economies.

The consensus among present governments is that, if inflation is to be kept under control, action to reduce the jobless total should be confined to microeconomic, or supply-side, measures.

These range from the liberalisation of capital flows, to measures to reduce the power of trades unions, to the privatisation of state assets. Alongside such reforms, governments have established varying types of training and make-work schemes to take the political sting out of high unemployment.

There is little doubt that the supply-side measures can help to generate a more entrepreneurial spirit in Europe, and remove some of the more obvious impediments to business start-ups and expansion. Tax reform can also take some of the bias out of the tax systems which have encouraged capital deepening rather than employment.

It is whether such measures in themselves are enough which is open to serious question.

As the European Commission highlighted in its 1987 annual report, Europe is in danger of being permanently locked in to a low growth path. Annual growth rates of 2 or 2.5 per cent will at best allow it to absorb new entrants to the labour market.

Without the prospect of stronger demand, businessmen are unwilling to widen the capital base; without such an expansion industry will be unable to take on workers at anything like the rate needed to reduce unemployment to historical levels.

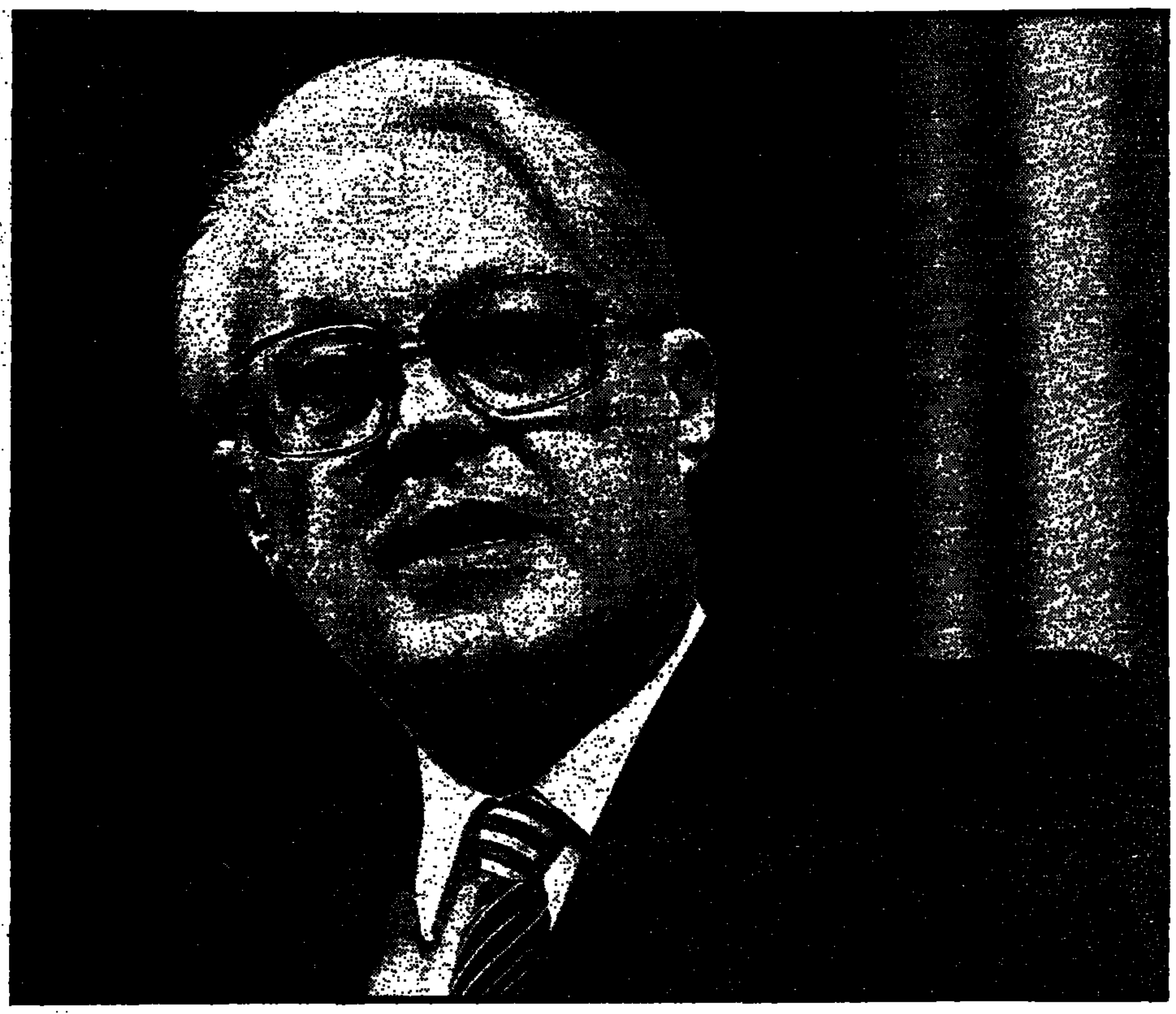
The answer put forward by the Commission, to complement supply-side measures, sought to improve the flexibility of labour markets with macroeconomic policies aimed at both ensuring adequate demand and at raising productive capacity. Such an approach, of course, would not bring instant results. It would, however, offer at least some hope of the present vicious circle being replaced by a virtuous one.

Philip Stephens

Gerhard Stoltenberg, Finance Minister of the Federal German Republic, on pressures facing his country

Expansion must vary with potential

The basic annual growth trend in the Federal Republic is between 2 and 3 per cent. And no one would benefit if, by means of expansionary budgetary and monetary policies, involving the sacrifice of price stability, we were to achieve somewhat higher growth rates.



Mr Gerhard Stoltenberg: younger industrial nations have higher growth potential

AS ONE of the most important exporting nations, West Germany is dependent on international markets to an extent matched by few other countries. At the same time, we are an important customer for many foreign producers. As a result, the world economy has always played a decisive role in influencing our policy-making.

Present international problems arise above all from the instability of major commodity prices and exchange rates, from the effects of ill-considered debt policies - both national and international - international, and from neglect of elementary competition rules. These problems persist in spite of positive developments on growth and inflation.

Responsible politicians must stand up for efforts to improve the functioning of the world trade and monetary system, for active economic co-operation and for attempts to boost growth in poorer countries.

Unfortunately, in public discussion over policies in individual countries, insufficient attention is often paid to these overall policy-making tasks. It has become fashionable to make judgments upon countries' economic policies on the basis of their so-called contributions to growth. This seems to result from the view that development of the world economy depends on the success of economic stimulus measures by governments, to be carried out above all by the main industrialised countries.

Of course, we all want stronger growth. The goal of higher prosperity is the bedrock of the world economy. But the pace of desired expansion varies from country to country, according to *its stage of development,* population growth and political goals.

It is natural that younger industrial nations, or those with rapidly rising populations, have a higher growth potential than countries which have already reached a high level of prosperity or whose population is declining.

The basic annual growth trend in the Federal Republic is between 2 and 3 per cent. No one would benefit if, by means of expansionary budgetary and monetary policies, involving the sacrifice of price stability, we would achieve somewhat higher growth rates.

Our partners in Europe and on the other side of the Atlantic and the Pacific can be certain, however, that West Germany is doing everything possible to create the right conditions for investment, better marketing opportunities and more jobs in a competitive climate.

The consolidation of public finances in the last few years has not limited growth. On the contrary, it has created additional freedom of manoeuvre for the private sector.

We want to provide a reliable base for improving our economy over the longer term. This requires a carefully adapted budgetary and monetary policy to secure a high degree of price stability, and a gradual reduction of the state's share (presently 46.5 per cent) in total output.

Necessary steps are: further public spending restraint, a better environment for private investment, further privatisation measures, and the strengthening of self-reliance in the social security system.

Additional budgetary breathing space created during the last few years can now be used for significant, permanent tax cuts. Between 1986 and 1990, the tax burden on West German corporations and individuals is to be lowered by nearly DM50bn, representing around 2.5 per cent of gross domestic product.

This initiative places the Federal Republic at the top of the world tax-cutting league table. It is now generally agreed that greater budgetary manoeuvring room and enhanced individual incentives provide the key to *maintaining the strength and* adaptability of our economies in coming years.

West Germany is fulfilling its part of the February Louvre agreement by bringing forward part of its tax cut plans, with the 1988 instalment increased by DM5bn to DM14bn.

As a result of better co-ordination of economic, budgetary and monetary policies, the aim is to stabilise price and currency relationships, and so improve chances for smooth expansion of international trade.

West Germany played a significant part in bringing about the Louvre agreement, and, through low interest rates and considerable foreign exchange intervention, has contributed to its success up to now. Japan, the country with the largest foreign trade surplus, has also decided on concrete measures to stimulate domestic demand.

In the US, the budget deficit, which has been one of the causes of the large trade deficits of the past few years, is expected this year to fall by around $80bn.

This policy co-ordination and the considerable currency adjustments of the past two years will not fail to have the desired effect. Already, the impact on real trade balances has been far greater than on nominal values, which have been influenced by the drastic changes in exchange rates.

In constant foreign trade prices, the West German trade surplus last year fell by nearly DM20bn, or 1 per cent of gross national product. The volume of imports in the first half of 1987 rose by 11 per cent, compared with the first half of 1985. The Federal Republic has, as a result, supported growth in other countries.

The decisive point is that we must not disrupt this adjustment process through protectionist measures. Trade policy submissions discussed in the US Congress are clearly pointing in the wrong direction.

It has to be recognised that, in Japan, in the newly industrialising states of South-east Asia, and in the EC, further opening of national markets and strengthened deregulation will contribute to a spurring of free trade.

I believe that improved economic co-operation within the EC and among the big industrialised countries has proved itself. But this should not be misunderstood as a system where *governments take short-term* economic measures in response to limited fluctuations of the economy. We do not want a return to the stop-and-go policies of the 1970s.

International growth, through price stability and free trade, is necessary to solve the problems of international indebtedness. Developing countries can earn the necessary foreign exchange to build up their economies and meet debt service requirements only in an expanding world economy with more open markets.

In line with its important share in the provision of international capital, West Germany will play an important role in solving the debt problem. We have always argued for a further *strengthening of the* resources of the World Bank, the regional development banks and, in appropriate circumstances, the IMF. It is unfortunate that the urgency of these tasks is not recognised to the same degree in all industrialised nations.

In important aspects, international economic co-operation has advanced further than has sometimes been apparent to the public. Increased consultations create understanding for problems of other countries and strengthen readiness to consider the interests of partners. In an economic system of increased world-wide interdependence, the Federal Republic is well aware of its heavy responsibilities.

Trade

Protectionism lives

IT IS now almost exactly a year since the Uruguay Round of *multilateral trade liberalisation* talks was launched amid a euphoric fanfare at a meeting of trade ministers in Punta del Este. In the intervening months, euphoria *has* given way to *a* harsher day-to-day reality. Doubt and uncertainty over the outcome of the four-year round is once again as strong as ever.

That this should be the case *is* in one respect unsurprising. Multilateral trade liberalisation talks have never been easy affairs. A year is a very short time in the negotiating cycle, which so far has concentrated on identifying the problems rather than any serious bargaining, and no one ever expected concrete progress to be made in such a short time.

What has been a clear disappointment to the promoters of the round, however, is that the climate in which it is taking place has hardly improved at all. Growth of world trade in manufactured goods remains sluggish - the General Agreement on Tariffs and Trade is forecasting an increase of only 2.5 per cent this year, compared with 3.5 per cent in 1986. The *steep decline in the dollar* has made only a small dent in the massive trade deficit of the US. Japan's surplus remains embarrassingly large, and efforts by other trading nations to prise open its markets to imported goods have met with few practical results.

Far from declining under the impetus of the new round, all the signs are that protectionism has been on the increase as a result of these factors. A key part of the Punta del Este declaration was a promise by participating countries - known in the jargon "standstill and rollback" - to reduce the level of protection *afforded to their respective* economies. Yet a study produced by Gatt this summer showed that the number of grey area (ie protectionist) measures adopted by its members rose to 116 in the six months to March, from 93 in the preceding six months.

At the same time disputes abound between the major trading powers.

Though a trade war between the EC and the US over pasta exports was averted at the last minute in early August, other quarrels are looming as the US frets about EC plans to ban the use of hormones in meat and continues to charge *its* governments with unfairly subsidising the European Airbus.

Meanwhile, the US actually imposed sanctions against Japan this spring as a result of its failure to observe conditions of the bilateral agreement between the two countries on *semiconductor trade, an agreement deemed by many experts* to violate Gatt rules. Japan, for its part, is threatening action in *the Gatt to protest against* a recent European decision to start including imported components in its dumping inquiries over Japanese photocopiers and typewriters.

Trade economists say there are two dangers inherent in such a proliferation of disputes. The first is that at some point one will spill over into a process of retaliation and counter-retaliation that will tip the world into a major trade war. In practice, such a development is unlikely, because all the world's major trading nations are fully aware of the risks at stake and in the past have usually *stepped* back from the brink. Yet there remains the risk of an accident.

The second, which is more pernicious, is that the actions of the leading trading powers may undermine the moral climate in which the Gatt round is taking place. There is little point, for example, in the developing countries, which are supposed to play a more important role in this round than ever before, taking a positive stance over the Gatt Round when the major trading powers in practice display contempt for the rules of free trade as set out in the Gatt.

The main influence on the mood of the negotiations as they move into their second year is likely to be the trade legislation now being prepared by the US Congress. Draft bills produced by the two houses of Congress are now being reconciled, but some of the proposals they contain have aroused emotions *ranging from alarm to down*right hostility elsewhere in the world.

Earlier this summer, Mr Willy de Clercq, EC External Relations Commissioner, said the new trade legislation constituted a "unilateral and unacceptable" attempt to rewrite the rules of world trade. Senior Reagan Administration officials, such as Mr Clayton Yeutter, US Trade Representative, have warned Congress that some of the *proposals, including enhanced* protection for the textile industry and measures to require countries with persistent trade imbalances *vis-a-vis* the US to reduce their exports to that country, will invite damaging retaliation from trading partners.

At this stage it is too early to say how many of the most contentious measures will remain in the final version of the bill, or indeed whether President Reagan will be able to muster sufficient support in Congress to veto such a bill if he so chooses. The general assumption is, however, that the US will move on to a more protectionist track as a result of the Congressional debate.

A bill which is successfully vetoed by the President would hardly constitute a victory for the free traders, since it would mean that the whole debate would be re-opened next year when the Reagan Administration is drawing very close to its end. Moreover, a veto would tend to slow down the Uruguay Round since it would deprive the US Administration of the fast-track negotiating authority which it needs for the Geneva-based talks.

Even if a bill were passed which dropped all or most of the most obvious contentious points, the likelihood is that it would still lead to increasing friction between the US and its trading partners. This is because one of the most fundamental points at issue is a Congressional attempt to limit the *discretion of the President in* managing trade policy. His power of negotiation would be diminished, action under trade law would become more automatic, and disputes would increase.

One of the most important yardsticks by which the trade legislation will be judged will therefore be whether the Administration has had to forgo its powers of discretion in order to avert the most conspicuously protectionist elements of the legislation. If there is to be a trade-off, it seems inevitable that the Administration's power of discretion will inevitably be diluted.

This is hardly a climate conducive to a productive outcome of the Uruguay Round. Ironically, most of the officials and politicians most intimately involved in these discussions accept the intellectual argument in favour of freer trade. Reconciling this to what is politically feasible is another problem altogether, as the acrimonious exchanges between the US and Europe over agriculture this summer have *already shown*.

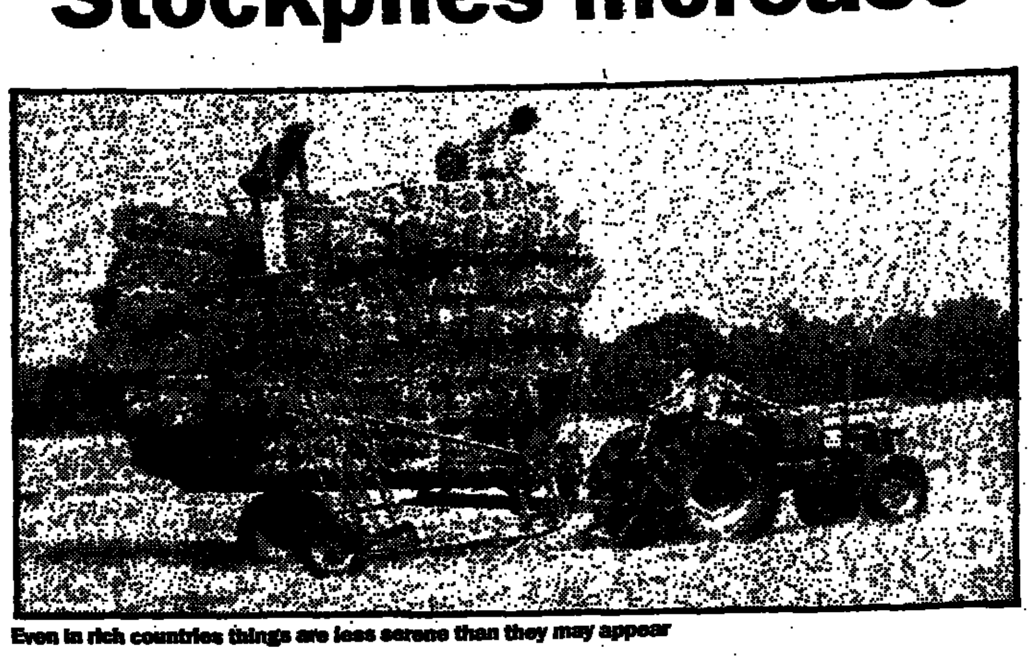
There is too much at stake in the Uruguay Round for it to be allowed to founder altogether, but, partly because of the direction taken by the trade debate in the US, many observers believe that the political will to make it a meaningful success is also lacking.

As a result, the fear remains that, even though the round is now under way, international trade politics may increasingly turn away from multilateralism to a new approach based on bilateral and sectoral agreements between major trading powers, which would impede the free flow of trade around the world and ultimately stunt the prospects for general economic recovery.

Peter Montagnon

Agriculture

Stockpiles increase



Even in rich countries things are less serene than they may appear

AGRICULTURE IS in crisis virtually the world over. In the rich countries of the developed world, production has increased markedly over the last decade under the twin stimuli of technological innovation, which has increased yields, and the generally high levels of support that governments have given farmers.

At the same time, traditional markets have remained stable, or have declined, while new markets have been found only at the cost of heavy export subsidies. Stockpiles have grown rapidly while, overall, the cost of agricultural support has spiralled, creating increasingly untenable pressures on budgets.

Paradoxically, however, the majority of farmers in the rich states have benefited little from this rising expenditure, since some 75 per cent of all agricultural aid has gone to fewer than 25 per cent of the area's farmers, who are in fact the larger producers.

These problems have spilled over to the rest of the world, distorting international trade, lowering prices of many commodities produced by developing countries, and leading to growing tensions in international relations as countries compete for markets in increasingly bitter trade wars.

Evidence of the mounting crisis has been accumulating for several years. What is new, or relatively new, is that, under pressure from their treasuries, the industrialised countries are beginning to recognise the need for action.

The crisis is currently most acute in the cereals and dairy sectors, although beef, sugar, rice and a number of other commodities present similar problems.

Wheat production in many of *the major OECD* countries, for example, though now growing at somewhat less than the yearly 2.1 per cent which prevailed in the 1970s, still increased by between 15 per cent (*Australia*) and 42 per cent (European Community) in the five years from 1980-81.

Though the overall rise in production has been modest (largely thanks to land being taken out of cereal production in the US recently), 43 per cent of all wheat produced within the OECD was stockpiled in 1986-7, against 32 per cent five years earlier. Cereal stocks in the US and EC are now nearly 50 per cent higher than they were five years ago.

At the same time, world cereal consumption has slowed down. Within the OECD, which accounts for 30 per cent of world consumption, the increase is now some 0.5 per cent a year. International trade in cereals is stagnant after fast growth in the 1970s, partly because former importing countries, like India and China, are now joining the list of would-be exporters; but also because of slowed world economic growth rates and balance of payments pressures in developing countries, which has reduced imports.

In the dairy sector, one of the most heavily subsidised within the OECD, stocks of butter and skimmed milk powder (the most easily stored of surplus dairy products) rose to record levels in the mid-1980s, with the EC alone stockpiling 1.1m tons of butter in 1985-6, compared with some 343,000 tonnes in 1981.

As for the cost of agricultural *support systems*, a recent analysis by the OECD (*National Policies and Agricultural Trade, OECD Paris 1987*) suggests that total subsidies, including price support, income support and indirect subsidies, amount to about two-thirds of the total value of all dairy produce, and between 20 and 35 per cent of most other commodities.

Estimating costs another way, the report suggests that the US and the EC each spent just under Ecu7,500 in support for each agricultural worker in 1979-80, or Ecu11,000-12,000 per agricultural holding. That sum is certainly greater today, for the OECD estimates that total spending on agriculture in the US rose from about $26bn in *1980 to some $57bn* in 1985, while the EC support costs doubled from $10.8bn to $20.5bn in the same period. The latter figure did not include the very substantial sums spent on national farm support by member states.

But if the problems facing agriculture world wide are now much better recognised, there is so far no unanimity as to what should be done about them.

In the last two or three years, both the US and the EC have introduced measures primarily to control production. In the US, for example, schemes to fallow land that formerly grew cereals have stabilised output. Much the same effect has been achieved in the EC with the imposition of quotas on milk production which were abruptly introduced in 1984 and have subsequently been continued. Cereals prices have also been cut by the EC, although there is a widespread *belief that more* drastic action, including setting aside land as in the US, will be necessary if production is to be effectively curbed.

There is a growing recognition, however, that for solutions to be effective they must be multinational and applicable to a wide range of commodities, since there are substantial linkages between sectors (what happens to the price of feed grains obviously has an effect on the beef industry, *for example*).

Last September, the 93-member Gatt organisation finally agreed that agriculture should form a major part of the new Uruguay round of trade negotiations which will reopen in Geneva this autumn. A battle royal is promised as the round develops, since it is already clear that there are substantial differences of approach even between OECD member states.

Last July, in a move which *many observers believe was de*signed more to shock the EC and Japan into action rather than to provide a practical starting point for negotiations, the US proposed the worldwide *elimination of all forms of farm* support by the end of the century.

The US plan, whose three main planks involve the removal *over 10 years of all subsidies* affecting trade, the elimination of all import barriers over the same period and the harmonisation of health regulations, was immediately labelled as too ambitious and impracticable by EC officials.

The European Commission, which is to table its own proposals by the end of the year, is certain to take a more modest line, possibly more akin to that of the recent OECD report which envisages a 10 per cent reduction in subsidies over a five year period, with further similar reductions thereafter.

Many experts believe, however, that real reform will be impossible within the unwieldy and slow-moving Gatt unless the major subsidising countries can first reach political agreement between themselves. The possibility of an agricultural summit involving the US, the EC and Japan has been mooted by, among others, a number of US senators. They have proposed an agreement on the withdrawal of subsidies on six of the most heavily subsidised commodities - wheat, butter, beef, rice, sugar and cotton - over the next five years.

According to the OECD, whose report was the result of a *five-year analysis, the reform of* agricultural policies "is every day becoming more urgent and critical". The report insists that the aim must be to "reduce market distortions arising from support programmes, to make the agricultural sector more flexible and more responsive to world market signals, to reduce costs, to reduce the disparity of benefits between producers as well as to improve international relations in agriculture."

It believes that *reforms* must change the nature of agricultural support so that it is no longer output-related. This will, it believes, inevitably change the structure of agriculture in the rich states, involving a substantial decline of the resources deployed in the sector. A number of OECD states are tentatively thinking along the same lines. In Britain, for example, there are nascent schemes to make agriculture in less favoured areas much less intensive.

Bridget Bloom

Oil

Production up and prices stable

AT THE begining of this year, most of the major oil companies were expecting that crude prices would be highly unstable, *with a collapse to $15 per* barrel widely expected within a few months.

By the end of August it was clear that their analysis was sound but their predictions were wrong. Production by the Organisation of Petroleum Exporting Countries had climbed to some 2.5m barrel a day, or nearly 40 per cent above the organisation's agreed ceiling of 16.6m barrels a day.

Stocks were reported to be rising faster than could be explained by the usual seasonal build-up in advance of the northern winter; and all the evidence suggested that large quantities of oil were still steaming from the Middle East towards markets in the west, despite the depredations of the Gulf war.

Indeed, as the Paris-based International Energy Agency has pointed out, Opec production at the end of the summer was at the same level as in the summer of 1986, just after spot oil prices had plunged to the giddy depths of $8 per barrel, and some Gulf crudes were fetching only $6 before shipment.

In short, the extensive "cheating" by Opec members, which was the root cause of the collapse in prices last year, and which was widely expected after Opec's protracted meeting in Geneva before Christmas, has happened. Kuwait, the United Arab Emirates and Iran have all been substantially above their quotas, and all the signs are that Iraq, which stood outside the agreement, will continue to expand output through its pipeline to Turkey.

Yet the oil price remains remarkably close to the target of $18 agreed for it by Opec members in the crowded corridors and suites of Geneva's Intercontinental Hotel nine months ago. It is true that spot market prices have been jumpy, and indeed slipped significantly when it became clear this summer that Opec's chronic tendency to over-produce was getting worse, not better.

But the movements, though exciting enough to futures market players and Wall Street refiners, have not perturbed the industry, and have scarcely been noticed by the wider world. Indeed, for consumers outside the US, movements of the dollar and the question of its further fall have been much more significant than the spot market price in dollar terms.

For some reason, which remains a puzzle to many acute observers, a general air of confidence in stability seemed to emerge in the spring at about the time that the widely expected weakening in crude prices did not happen. This was shown, not just by the relative strength of oil company share prices, but by the behaviour of oil companies themselves.

British Petroleum's decision to spend more than $7bn buying the minority of Standard Oil of the US that it did not already own was perhaps the most obvious sign.

No doubt the main factor was the sacking of Sheikh Ahmed Zaki Yamani as Saudi Arabia's oil minister in October 1986, and his replacement by the solid and forceful Mr Hisham Nazer. Although Yamani's departure was greeted at first with some shock and apprehension, it was soon seen as the definitive end of the Kingdom's policy of regaining market share by *discounted* prices and "netback deals".

Certainly, Mr Nazer made it clear that this did not mean that Saudi Arabia would revert to the role of swing producer, if that meant a substantial reduction in production from its agreed quota; as had happened in the summer of 1985, when its output fell to little more than 2m barrels a day or less than half its present rate. If Mr Naser was bluffing, his bluff has not had to be called. Instead, he has so far shown himself to be quite successful in putting pressure on erring members.

In this he has no doubt been helped by the rather strange consensus that has developed between Saudi Arabia and Iran despite the increasing rancour of their general political relations. This is symbolic of a wider sense among all Opec members that, having stared over the brink of financial ruin last July, they must be careful how close to the edge they push each other next time.

The growing tensions the Gulf make it especially hard to predict the politics of Opec. However, an uneasy pattern seems to have been established for more than a year, in which members have allowed themselves a certain tether for cheating, in the knowledge that they will be brought up short as soon as the spot market starts to show serious weakening. Another Opec meeting is announced, which keeps the market uncertain. A patched up agreement, which nobody quite believes, revives the price a little and so the cycle continues.

But there may also be more fundamental influences at work. The demand for oil is once more beginning to revive after its lengthy decline. The modest rise of about 1 per cent expected this year would add a little under 500,000 barrels a day to world demand, while North American production now seems set on declining trend.

These movements will not do much to mop up the surplus in Opec which could probably produce 10m barrels a day with little extra investment. However, as Norway recognised when it decided to limit the increase in its production, even a small amount could help to tip the balance in the cartel's present uneasy state of equilibrium.

Another mildly stabilising factor is the wide consensus in the oil industry that about $18 *per barrel is the "right" price for* oil, even though a fully competitive market would drive the price down to the marginal cost of production, which might be as little as $5 per barrel for a time.

However, in a market not glutted by oversupply, prices might be somewhere around the present long run marginal cost. As a result of strenuous cost cutting, this has been brought down to the $17-to-$22 per barrel range *for some North Sea projects* now under consideration. Though western oil producers would prefer a higher price, $18 is widely seen as a "fair" compromise between the interests of the consumer and the need for producers to generate cash flow for future investment.

It is also a price which may not greatly slow the pace of conservation, though it may not encourage it. This consensus has been re-inforced somewhat out*side the US by the effect of the* dollar's decline, which has taken some pressure off those oil refiners selling products in other currencies, even though margins are generally low.

Whether this consensus actually affects the price of oil is more difficult to say. Oil companies all deny that their interest in "stablity" takes any active form. However, it seems likely that, in their dealings with Opec, the major oil companies may in subtle ways have tried to re-inforce the present accord without going so far as to sacrifice their own competitive ad*vantage*.

Even though prices may again fall *steeply, as seems* entirely possible, a consensus is growing that the *risk of a sustained* large rise in prices is much less than was believed only a few years ago. Lower prodution costs and new techniques may lenghten *the life of non-Opec supplies*, although they will not prevent a decline unless some major new fields are found.

*However, the cost of convert*ing coal into synthetic oil and of making petrol out of natural gas seems likely to decline, so that non-conventional supplies of petroleum products could start coming on to the market at less than the equivalent of $30 per barrel in the 1990s, putting, if not a cap, at least a restraining influence on the oil price.

And yet, as the events of 1973-4, 1979 and 1986 all *showed, major changes in the* oil price, even when they are predictable, take the world by surprise.

Max Wilkinson

WORLD ECONOMY 9

Anthony Harris on trends in world securities

Now we are getting used to vertigo

As the peak market multiples of the 1960s are approached or surpassed, we are clearly very near the point where a bull market overshoots into financial mania, and may already have passed it - even with hindsight, the moment is hard to define.

IT IS now well over a year since the international investment community began to distrust the Tokyo market. Many fund managers have lost potential profits as a result, but they have had their compensations. Striking gains have also been available in most other markets, until these too have reached levels which arouse the same feeling of vertigo as Tokyo has for so long.

Three years ago the currency markets showed the danger of following trends regardless of the fundamentals. The dollar rose to levels which were obviously unsustainable in economic terms; but the rise went on for so long that many financial managers concluded that the underlying rules had been changed in some unexplained way. They had not. The result is that Japanese investment managers have collectively lost some $40bn on their dollar bond holdings, while the correction of the dollar exchange rate which started in February 1985 is still incomplete after nearly two and a half years.

If a widely traded currency can reach nearly twice its equilibrium value as a result of market volatility, security prices can easily diverge much further. Currency misalignment provokes quite strong economic forces making for a correction: profits in the over-valued country are squeezed, and trade slides into deficit. The over-valuation of securities, on the other hand, tends to appear self-justifying over quite a long period, since its initial impact tends to boost both economic activity and profits.

The effect on activity is difficult to measure, since the so-called wealth effect on spending and saving is a relative newcomer to economic models, and its strength is much debated.

In the UK, for example, consumer spending has been growing closely in line with money incomes, while industrial investment has lagged behind economic growth. However, the wealth effect is still detectable; economists would normally expect the growth of spending to lag behind income gains, while the investment surge which results from strong goods markets and cheap capital is always a latecomer in the economic cycle.

The effect on profits is much clearer. Staff pension funds have achieved such high investment profits that there has been a partial funding holiday for the employers, boosting reported profits. Corporate treasurers have been able to turn their strong credit ratings to profit in the money markets, and in some countries - notably in Japan - companies have been active large-scale speculators in the securities markets. The dangers inherent in this geared-up speculation became clear with the failure of a small chemical company recently, but the Tokyo market took this *memento mori* remarkably calmly.

Continuing reported profit gains have helped to reassure those who are nervous about high market index levels; but all the effects which produced them will reverse if the market itself reverses. Pension funds will need topping up again, and companies that have been speculating may have to report heavy losses. This is a system built for volatility; and inherently unstable systems will occasionally, like the ocean swell, produce freak waves.

As the peak market multiples of the 1960s are approached or surpassed, we are clearly very near the point where a bull market overshoots into financial mania, and may already have passed it - even with hindsight, the moment is hard to define. The pattern, on the other hand, is very clear: in a financial mania all the normal bull market multiples (the 1960s peaks which are now being scaled again) are left far behind. Prices rise to dizzy heights, and then crash. It is a period of maximum profit opportunity, and maximum risk.

Such episodes have punctuated financial history every half century or so, as have the rather rarer financial panics (though many active traders vividly remember the London panic of 1974, when prices fell faster and farther than in 1929). Students of the market have offered explanations ranging from crowd psychology to the length of the working lifetime of a senior trader, or sought them in monetary theory or in the long technological cycle.

These are all plausible lines to research; but the theory which seems to fit best at the moment relates financial mania to the rise and fall of financial hegemonies. At intervals through history a country which has been the main source of international capital grows economically decadent (there is no room here to trace the chain of cause and effect), and a new centre emerges.

At intervals in history, a country which has been the main source of international capital grows economically decadent

This financial baton-passing seems to be marked with financial mania; the Dutch tulip mania, the South Sea bubble, and the Wall Street boom and crash are all examples. The cause may be the inexperience of the new investors, the fact that world savings tend to rise at such periods, or perhaps (in modern times) the fact when world reserves are held in a weak currency, there is a large transfer of wealth from official reserve-holders to private investors.

Whatever the mechanism, there is clearly a risk that the emergence of Japan as the main source of new international capital will be associated with another mania. This risk is clearly greater because of what happened in the 1970s, when the authorities deliberately left it to the private markets to recycle the Opec surpluses through the Euromarkets, and effectively lost control of the system as a whole.

Deregulation in these circumstances is a policy which would have appealed to King Canute; he wanted to prove to his courtiers that he could not control the tides. It is no help at all, however, to central banks charged with keeping the financial structure in good repair. As the markets become more comprehensively international, the power of individual central banks is steadily eroded.

However, the authorities can still influence the system. The persistence of high real interest rates, in strong currency countries as well as weak ones, shows the effort they are making to restrain financial inflation. Portfolio positions are much less highly geared than they were in the 1920s (some of the lessons of history do seem to stick), so that any any major correction is less likely to be tipped into panic by distress and stop-loss selling.

As a result, it is now fashionable to assume that the history of the 1929 crash simply cannot repeat itself: "they" would not allow it. This is very far from being a racing certainty; but there is at least a sporting chance that, if history is about to repeat itself, it will replay this time as farce.

Profile: Kiichi Miyazawa

Shy listener keeps calm under fire

THE ELFIN figure of Mr Kiichi Miyazawa, who celebrates his 68th birthday next week, has gradually become familiar on the world stage in the past year.

As one of the prime candidates to succeed Mr Yasuhiro Nakasone next month as Japan's prime minister, it could soon become even better known. As Japan's finance minister, Mr Miyazawa has been the man on the spot each time the dollar has trembled. One day he is seen sitting intently in his Diet seat in Tokyo, fending off the angry sallies of Japanese politicians worried about the effect of the rapidly rising yen on the economy of their constituencies. The next, he is seen in Washington, on Capitol Hill, pleading with US officials to provide some support for the dollar, or at the least to stop talking it down.

Mr Miyazawa is also the man on the spot with respect to a number of other foreign pressures on Japan. It is his ministry that is blamed for the still-rigid controls on the country's financial markets. And it is the Ministry of Finance that is dragging its feet on abolishing a number of taxes that discriminate against imports.

For all the pressure on him, he has responded in the past year in the way one would expect of a civil servant turned politician - with calm and humour. When confronted, a few months ago, about the discriminatory nature of Japan's tobacco taxes, he suggested that the simplest way to solve the problem was for people to stop smoking.

Mr Miyazawa will need all his wits in the next few weeks as the campaign to succeed Mr Nakasone swings into high gear. He is in a difficult position - universally acknowledged by business leaders, bureaucrats and political commentators as the best qualified of the three leading candidates for the job, but the least likely to get it.

His qualifications include long experience of international financial affairs, fluency in English and a clearly stated desire to improve Japan's primitive infrastructure.

Mr Miyazawa began his career in the Ministry of Finance in 1941 in the usual way - that is to say, after graduating from the law faculty of the University of Tokyo. He rose quickly to become deputy director of the ministry's banking and insurance bureau. He has no military record. In 1949, he became secretary to the minister of finance. An official profile says that he took "an active role" in Japan's post-war reconstruction efforts. He was also a member of the Japanese delegation to the 1951 San Francisco conference that negotiated the peace treaty between Japan and the US, ending the US occupation.

Mr Miyazawa left the civil service in 1952 to enter politics, following in the footsteps of his father. In a typical Japanese way, he had other family links to power. His cousin married the son of Zenko Suzuki, who was Mr Nakasone's predecessor as prime minister and former leader of what is now the Miyazawa faction in the ruling Liberal Democratic Party.

He was first a member of the upper house of the Diet, the House of Councillors, but won election to the more powerful House of Representatives in 1967. He has represented a Hiroshima constituency ever since.

He has had a succession of senior cabinet positions, including that of minister of international trade and industry (MITI), director general of the Economic Planning Agency, foreign minister and chief cabinet secretary, enabling him to pursue his international contacts throughout his career.

For example, he participated in the Kennedy Round Gatt negotiations in 1967 and the first and second economic summits of the seven leading industrialised countries at Rambouillet and St Juan in 1975 and 1976.

For all his qualifications, Mr Miyazawa does not enter the leadership race as favourite. He ranks a distant second or third in most straw polls taken these days. This is through no fault of his own, but is merely a reflection of the fact that his faction happens to be smaller than that of one of the other candidates. And in the corrupt world of Japanese politics, loyalty to faction is much more important than other considerations.

He is by no means out of the running. His faction has 89 Diet members, compared with 113 held by the leading candidate, Mr Noboru Takeshita, and 86 in the faction led by Mr Shintaro Abe. And with another 158 Diet members belonging to other factions, the potential for deal-making is considerable.

However, Mr Miyazawa is, by his own admission, a shy man, and he may lose in part by virtue of not exerting himself enough to get the job. Some observers have been dismayed in the past year that his admirable tendency to listen to the views of others may have resulted in his reformist urge being blunted by the arguments of the very conservative finance ministry officials - a charge that he denies.

'You can judge for yourself if there has been any change in the policy of this ministry that is the result of the close co-operation between the minister and the ministry,' he said in a recent FT interview.

Even if he does not become prime minister, he will undoubtedly retain a senior cabinet post and be in a position to assert his views. He has not yet published his full policy platform, but has indicated that he wants to see a restructuring of relations between Japan and the US.

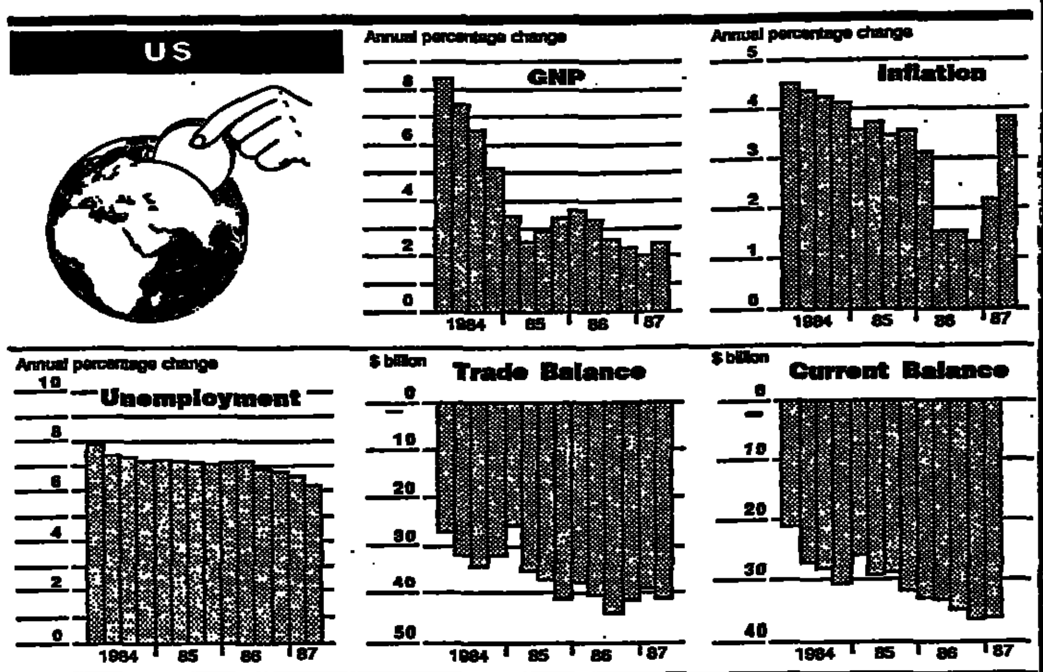
'Knowing our relations for 40 years, I think they are basically sound. If anything, the problem lies here more than there. The Japanese people as a whole are not fully aware of their status now in the international arena as well as in the relations of our two countries. It ceases to be a big brother, smaller brother relation. Maybe the US is bigger than we are, but that bigger brother, smaller brother concept must change.'

He also believes Japan must become a political giant now that it is an economic superpower, and should use its power to help world economic development and to seek nuclear disarmament.

Ian Rodger

The US

Deficit on the decline



AFTER A scare in the spring, when eroding confidence in the dollar sent interest rates spiralling upwards, the US economy is now on track to establish a new record for the longest uninterrupted cyclical upswing in the post-war period.

Private economists, echoing the confidence of Reagan Administration officials, are predicting that this year real economic growth will hit 2.5 per cent, and that 1988 will see a sixth successive year of expansion.

It is a projection that warms the hearts of Republican members of Congress and Republican candidates who fancy their chances to replace the retiring president and maintain their party's grip on the White House for a third consecutive four-year term.

For it holds out the possibility that, in the run up to the congressional and presidential elections next year, the performance of the economy will not prove to be the liability for their party that they have feared and the Democrats have hoped.

Although the forecasters are projecting continued expansion, an unemployment rate nationally close to the current level of 6 per cent, and an inflation rate which should range around 4 to 5 per cent in 1987 and 1988, they are not doing so with very much confidence.

The slump in the dollar and the run up in interest rates in the spring served as a reminder of just how fragile these forecasts are, a warning that was repeated in the last few weeks in August.

Once again the dollar plunged, and the New York bond market collapsed, this time in response to news that the trade deficit had risen to $15.7bn. And once again the Federal Reserve (this time under its new chairman Mr Alan Greenspan) was forced to come to the rescue, this time by raising the Discount Rate to 6 per cent, confirming the market's fears that the long cyclical downturn in interest rates since the start of the decade is over.

Behind the projections of further growth through 1988 is the judgment that the huge US trade deficit is now beginning to decline, imparting forard momentum to an economy which badly needs to see exports and capital spending replace the consumer and the government as the driving forces behind the expansion.

Were it not for the fact that, in volume terms, the trade deficit is already falling, a recession would probably already be looming. Mr Fred Bergsten, director of the Institute for International Economics, in Washington, has estimated that the improving trade balance could be adding around 1 per cent to real gross national product in 1987, and perhaps as much again in 1988. Export-led growth is underway in the United States, he maintains.

That the trade deficit in nominal terms - the monthly merchandise trade figures which attract so much attention - has yet to reflect the underlying improvement (the mercandise trade deficit hit a new record of $16.7bn in July) reflects the fact that the higher price for imports, as a result of the dollar's decline, for a while offsets the volume gains.

But how certain is it that export-led growth will rescue President Reagan from the consequences of the folly of his fiscal policy?

The alarums in the forign exchange and bond markets this year - which have sent long-term Treasury bond yields to 9.5 per cent, more than two full per centage points above their level when the year began - have underscored just how little confidence there is in the financial markets that the US and the other industrial countries can correct the huge trade and fiscal imbalances threatening the world economy in an orderly way, and without precipitating a world wide recession.

In part, this lack of confidence reflected the evidence that US inflation was showing signs of revival. In the first two quarters inflation was running at around he 5 per cent. The question now is whether this was just a temporary upsurge, reflecting the rebound in oil and commodity prices and the dollar decline, or whether a new inflation spiral is underway.

The financial markets will be watching closely for the next few months, to see whether the inflation figures ease back. Any signs that inflationary expectations are being built into wage costs would cause concern.

Worrying, too, would be evidence that the improvement in the trade picture was coming through much more slowly than now expected. This would test the patience of financial markets already fearful that, with the US continuing to grow faster than its industrial country trading partners, only a further fall in the dollar, or a recession, will bring the US current account into surplus and end Washington's enormous accumulation of foreign debt.

The foreign investors, whose continued willingness to buy dollar investments, is essential if the growth of the US economy is to continue as most economists project, already have to accept that, in all probability, Washington will not address before the elections the root cause of America's immediate economic difficulties: a federal budget deficit, set to start rising again after the fortuitous $60bn decline to around $16bn expected for 1987.

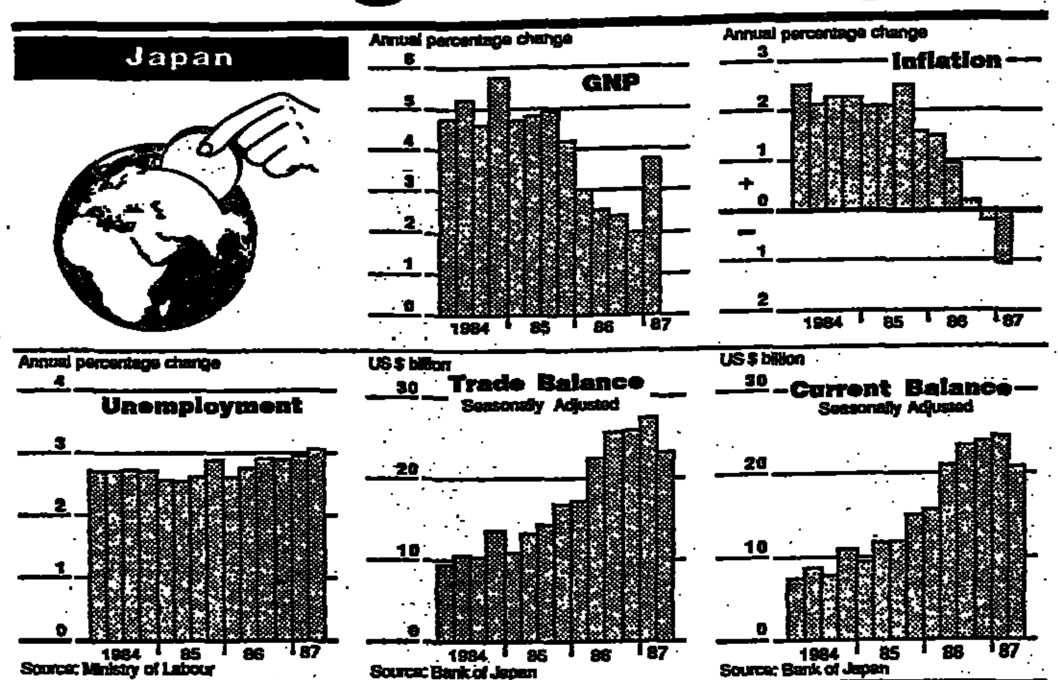
They can only hope that, in the next few weeks, wiser counsels will prevail, and that congressional hotheads do not stampede their colleagues into passing overtly protectionist trade legislation.

As the mini-boom in the dollar's value on the foreign exchanges in the summer suggested, it is by no means a foregone conclusion that the US expansion will succumb to eroding confidence in the financial markets, particularly if foreign central banks continue to be so willing to commit fortunes to stabilising the US currency. One surprise in the past two years has been just how successful government intervention has been, in helping to smooth the dollar's decline, and stabilising currencies.

Stewart Fleming

Japan

Pessimists get it wrong



TO THE surprise of most forecasters, Japan's economy is suddenly recovering strongly. Industrial output is rising, partly in response to a major government stimulus of domestic demand, and so forecasts of capital spending and corporate profits are regularly being revised upwards.

Mr Akio Kono, chief economist of UBS Phillips and Drew in Tokyo, said recently of the recovery: 'It is a big surprise. The recovery is much stronger than we had previously thought. Real GNP growth in the second half will be 5 or 6 per cent, and the recovery will continue well into 1988.'

Analysts are also optimistic that inflationary pressures will be contained, even though the long downward trend of interest rates has apparently come to an end. Until a couple of months ago, it looked as if the slowdown in growth which had hit the Japanese economy in the autumn of 1986, when the yen started to rise, would continue for some time. The trade surplus remained stubbornly high, upward pressure on the yen-dollar exchange rate was bursting out from time to time, and there was widespread scepticism that the Government would deliver on its latest promises to stimulate the economy.

However, the pessimists have been proved wrong on all counts. The yen, thanks to occasional massive intervention by the Bank of Japan in foreign exchange markets, has remained remarkably stable in the past year, moving for the most part in the Y140-155 to the dollar range. And because the yen has stopped appreciating, the so-called J-curve effect has finally begun to wear off Japan's trade figures. (The J-curve describes the tendency of the trade surplus to widen in the initial aftermath of a currency appreciation, because foreign customers, lacking the time to find alternative sources of goods, continue to buy Japanese ones at higher prices).

The combination of the removal of the J-curve effect and the stimulus to imports provided by the higher yen and higher oil prices has enabled Japan's trade surplus to drop rapidly in the past few months. In August, for example, the surplus was a third lower than it was in August, 1986. Some private sector analysts believe it may fall to $65bn in the current fiscal year to March 31, 1988, considerably lower than the Government's official forecast of $81bn and well below last year's record $102bn trade surplus.

The importance of the decline of the trade balance can hardly be over-emphasised. Japanese officials hope it will defuse a lot of the trade friction that has been threatening to cause a lot of damage to the Japanese economy. It may also lead to a change in sentiment in the foreign exchange market that would reduce upward pressure on the yen.

Meanwhile, the Government has moved quickly this year to implement a Y6,000bn package of economic stimulative measures. There is some debate over how much of this Y6,000bn is really new money and over the impact it will have. In the past, the Government has been slow in implementing its stimulative packages, and much of the money earmarked for public works has been wasted on high land purchase prices. However, this time, extra efforts have been made to encourage local authorities to spend, and the Government has sought out projects which do not involve expensive land purchases.

This has helped provide a stimulus to domestic demand, although it is now clear that consumption was already gathering momentum, simply because of the rapidly growing affluence of the Japanese people. Department store sales, for example, grew at nearly a 5 per cent rate last year, and have remained strong so far this year. Housing starts were up 18.6 per cent in the first half.

Industrial production has been slower to recover, but it too is now on the mend. At the end of May, the seasonally adjusted mining and manufacturing production index stood at 120.2 (1980 base 100) compared with a peak of 123 in December 1986. However, it jumped to 125.4 in June, the highest monthly rise in six years, and added a further 0.4 in July. The Ministry of International Trade and Industry (MITI) is forecasting further growth for the next several months.

Even more encouraging, private sector capital spending has begun to pick up. The Government's Economic Planning Agency forecast in August that plant and equipment investment this year would rise 6.5 per cent compared, with a drop of 0.3 per cent last year. Until recently, most forecasters expected that investment by manufacturing companies would continue to drop after last year's fall of 5.6 per cent, but now marginal growth in manufacturing investment is showing up in some surveys, showing that many manufacturers believe they can live with the high yen.

Corporate profits too have been rising. According to the Ministry of Finance, Japanese corporations' pre-tax profits rose 27.9 per cent in the April-June quarter to a record Y7,499.8bn. The Nomura Research Institute has predicted that pre-tax profits of manufacturing companies will soar by 31 per cent in the current fiscal year, because of increasing domestic demand and firmer prices.

The result is that most forecasters now expect the economy to grow by at least 3.5 per cent in real terms in the current fiscal year. This is a considerable improvement not only on the 2.6 per cent growth last year but also on the consensus among economists a few months ago that growth this year would be only about 2.5 per cent.

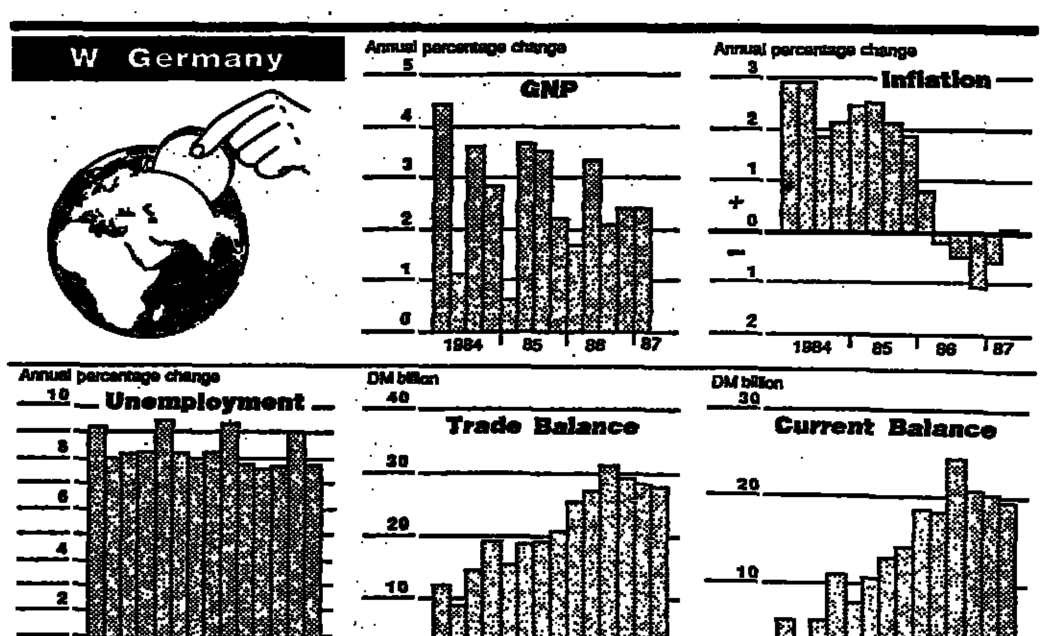
The clouds on the Japanese economic horizon concern inflation and unemployment. Money supply (M2 plus treasury bills) has been growing at over 10 per cent in recent months, and the Bank of Japan has become increasingly anxious about the possibility of a fresh outburst of inflation. Some analysts believe that is why the central bank seemed reluctant to intervene in the currency markets last month in defence of the yen. However, inflation has so far been limited to share and land prices, and government officials remain confident that there will be no bottleneck inflation caused by the resurgence of domestic demand.

As for unemployment, earlier worries that it would rise well beyond the current level of just under 3 per cent appear to be receding. Jobs in manufacturing are disappearing at a rapid rate, but the expansion of non-manufacturing sectors appears to be taking up the slack.

Ian Rodger

West Germany

Deregulation is on the way



GERHARD STOLTENBERG, the West German Finance Minister, must sometimes feel like the boy who made good in spite of his deadbeat family. Everyone wants something from him.

The Americans never seem to tire of demanding that West Germany does things to boost domestic demand. The French have just succeeded in drawing the Bundesbank closer towards automatic support of weak currencies in the European Monetary System (EMS). At home Mr Stoltenberg seems to have to throw endless amounts of money at farmers who complain that Bonn is to blame for European Community price cuts, or to the aerospace industry to pay for new Airbus models.

And money is tight. Compared with 1986, federal income in the first half of this year fell DM140m to DM114bn. Income from Bundesbank profits has fallen dramatically - from DM12.7bn in 1985 to DM7.3bn last year - and the sluggishness of the economy has also kept tax receipts nearly 2 per cent below target.

Next year, the Finance Minister has had to make provision for an 11.5 per cent increase in new federal debt - to DM29bn - after scoring impressive successes in getting borrowing down from DM37.2bn in 1983 to under DM23bn in 1985.

Even the optimists believe that Europe's richest economy will grow no more than 2 per cent this year. Many leading West German economists say a more realistic forecast would be about 1 per cent. Given the country's apparent political inability to break down the mountain of monopolies and cartels, and to make any dents in its DM130bn-a-year subsidy bill, pessimists argue that West Germany must be heading for a fall of sorts.

It is probably not. The country is extremely well run, but it is true that, for the first time since the end of the second world war, West German leaders are having to consider making major changes in the way the country works.

Faithful old monopolies like the Bundespost, the cartel of electricity utilities, and even Lufthansa, the national airline, are becoming harder and harder to defend.

The country's banking and insurance system, hugely profitable and virtually closed to outsiders, is under pressure to open up, not just because foreigners are queueing up to become stockbrokers or to make housing loans, but because West Germany cannot grow and compete as a financial centre until it begins to behave like all the others.

Subsidies are under attack. West Germans pay out some DM120bn a year subsidising everything from farming to the production of Mercedes Benz cars, and, despite all the promises of the present government, the bill is growing.

Cutting subsidies is where Mr Stoltenberg and the Government first have a chance to show what they are made of, but deregulating the country cannot be far behind, even if it is to be done in a very deliberate, Teutonic way.

Next month the Finance Minister is due to tell parliament how he plans to finance a DM39bn tax reform (including net cuts worth DM20bn) for the 1990s; and the deeper he cuts into subsidies to do it the more courage he will have shown.

Mr Stoltenberg has already proved himself decisive under pressure - the tax reform was initially worth DM44bn, but he agreed earlier this year to bring cuts worth DM5bn forward to next year to help stimulate the economy. Trimming subsidies to help finance the net DM20bn tax cut for the 1990s is going to be much harder, though, because they are jealously guarded by a host of powerful political interests.

At the top of the pile sits the Bavarian leader, Mr Franz Josef Strauss. Mr Strauss may be a man of the right, but he is no free-marketeer and is a staunch defender of the enormous farm and technology funding that finds its way to his traditional rural supporters and to Munich-based companies like Siemens and Messerschmitt-Bolkow-Blohm (MBB) aerospace group. MBB funds about 3 per cent of its research and development itself.

Mr Strauss will simply not allow those subsidies to be threatened, and he has the political weight to stop any threat. Mr Stoltenberg might also have trouble excising many of the tax breaks that count as subsidies, and may have to raise some consumer levies to make up the money he needs to find.

The tax reform is important to Mr Stoltenberg, not least because the way it is done will be used as a measure of his own authority in government. His counterparts in the west will be watching to see what gets cut, and the German public, among which he rates very high, will be able to form a perhaps final view of a man many would like to see as chancellor.

Early next year another challenge should emerge when the Government tries to introduce legislation to curb health spending. The state-sponsored system pays out around DM125bn a year, and the Government want private citizens to pay more of their own costs. Once again, though, it is an emotional issue and one on which the Finance Minister and Mr Strauss are likely to find themselves on opposing sides yet again.

And if pessimism suits the German temperament, then it is only suitable that even Mr Stoltenberg's successes - a strong currency and record low inflation - should now be beginning to haunt him. The Organisation of Economic Co-operation and Development (OECD) believes that West Germany's current account surplus will reach a record $37bn this year, and the threat to the country's exporting performance is clear.

Despite many expressions of satisfaction about the current level of exchange rates, the D-Mark could face even more upward pressure in the next few months and would do growth prospects at home no good. Interestingly, the OECD links the high current account surplus not with a high rate of saving but an unwillingness to invest.

With unemployment at a stubbornly high 8 or 9 per cent, even 1 per cent inflation begins to lose its shine, and Mr Stoltenberg could be forgiven for wanting sometimes to shake German industry by the neck for being so cautious with its money. But nothing would persuade him to try to bring forward the 1990 tax cuts by a year or two, as many of Bonn's allies would like.

Peter Bruce

The UK

Even neutrals are optimistic

BRITAIN IS not used to winning plaudits from international organisations for its economic performance. After decades of relative economic decline, in which its living standards have been overtaken by those of a string of smaller industrial nations, it is more used to references to "the British disease".

But last month's report on the country's economic outlook, from the Organisation for Economic Co-operation and Development, underlined some of the optimism that has now crept into the minds of neutral observers as well as government policymakers.

Despite the importance of the North Sea, Britain, the report said, had coped better with the impact of lower oil prices than many other industrial nation. "Output growth in 1987 is likely to exceed that for most other [OECD] member countries. Recent developments also compare favourably with the disappointing long-term performance of the United Kingdom."

The OECD did not ignore the problems: an official unemployment figure of 3m, a worsening trade outlook, earnings running far ahead of an inflation rate already above that of the country's main competitors.

And in the carefully-coded language, typical of international organisations, it suggested that the recent successes were not due to rigid adherence to the policies first introduced by the Conservative government in 1979.

Instead, the faster growth rate reflected a new flexibility and pragmatism in British policymaking, far removed from the mechanistic monetarism favoured eight years ago.

The growth rate is certainly impressive. Increases in output have averaged just over 3 per cent since 1982. For this year, Treasury economists are now expecting a figure of closer to 4 per cent.

That is likely to compare with just over 2 per cent in the 12-nation European Community as a whole, and with perhaps little more than 1-1.5 per cent in West Germany and France. It will also put *Britain* ahead of Japan and the US, both of which expect growth of around 3 per cent.

Manufacturing exports, the traditional weak link in Britain's performance, have staged a revival. The more pessimistic forecasts, that the country would face a massive *current account deficit as a re*sult of the halving of North Sea oil revenues, have receded.

The impressive performance of manufacturing industry dates back to last autumn when the Government allowed a sizeable *fall in the pound's value, in a* delayed reaction to the oil price collapse earlier in the year.

With the inflationary impact of the depreciation *offset* by lower fuel prices and weak international commodity markets, the result was one of the few successful devaluations in recent history.

Some of the resulting competitive gains were eroded when sterling was allowed to rise again *early this year* and export growth has slowed. But the Government's subsequent commitment to exchange rate stability at around present rates has helped underpin industrial confidence.

Investment, which was abysmally low in 1986, appears to be picking up in response to the more stable environment, while productivity is rising strongly, offsetting temporarily at least the impact of higher wage costs than elsewhere.

A good deal of the improvement in productivity is cyclical - a result of the strong bounce in output since early last year. It also reflects the fact that much of industry's most inefficient ca*pacity was scapped during the* massive slump in output during the 1980-81 recession.

There are signs, however, of a *more underlying improvement* in productivity, perhaps pushing up the annual growth rate in *manufacturing* to the 4 per cent or so typical of the 1960s, against a figure *of* 1 per cent or less seen in the late 1970s.

The output and productivity gains have been accompanied by rising corporate profitability. The rate of return on industry's capital, which hit a low-point of 5.7 per cent in 1980, is expected by the OECD to average 8.5 per cent this year.

The strength of the economy - and a tilt towards consumer-led demand - has also been reflected in a steady improvement in the Government's finances, despite a steep decline in oil revenues and *still-rising public* spending. Mr Nigel Lawson, the Chancellor, has been able both to reduce the public sector financial deficit to about 2.5 per cent of GDP and to announce progressive reductions in tax rates.

A further reduction in the basic rate of tax, from 27p to 25p, is widely expected in next year's Budget, as are cuts in the top rates which at present range from 40 to 60 per cent.

Such a snapshot of the economy, at its best, however, should not be allowed to obscure the medium term problems that still have to be faced. As the OECD comments: "There is no reason for complacency... These appreciable developments follow a long period of relative decline and occur against the background of an unsatisfactory *performance of other major* economies."

To put that further in per*spective: an analysis last month* by the respected National Institute for Economic and Social Research indicated that labour productivity in the manufacturing sector is more than 2½ times as high in the United States as in Britain. In West Germany it is nearly 80 per cent higher, and in Japan 75 per cent higher.

And there are several outstanding concerns. The dependence, so far at least, of economic growth on rapid increases in consumption may translate into a serious balance of payments constraint.

Although the deterioration so far in the *current account* has not matched some of the more pessimistic forecasts, the consumer spending boom has exacerbated the longstanding upward trend in import penetration.

The non-oil trade position has moved from rough balance in 1980 to a forecast deficit of around £13bn in 1987. The £3bn current account surpluses, typical of the 1980s, look like turning into deficits of roughly the same magnitude by 1988.

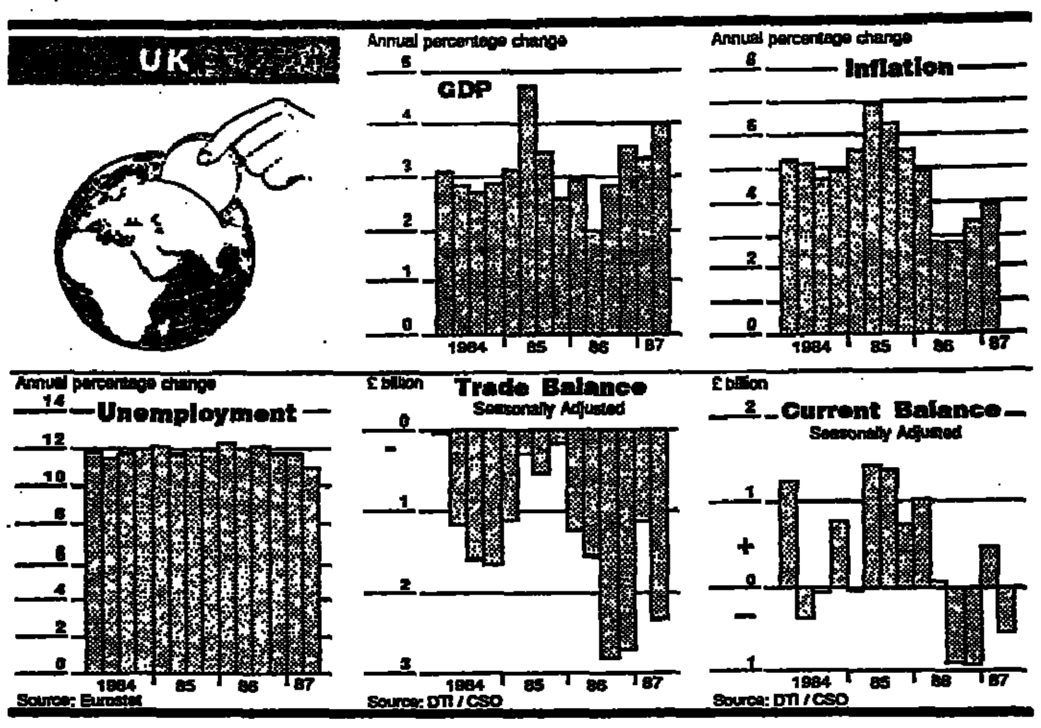
Prospective current account decifits in themselves would not necessarily be a problem - Britain has built up overseas assets of £114bn, making it the world's second largest net cred*itor after Japan.*

The worsening trade outlook, however, has to be seen against continuing rapid growth in average earnings which, despite productivity gains, is keeping inflation higher than elsewhere and continuing to erode industry's competitive position.

Despite the high level of unemployment, the pace of earnings growth has been stuck at between 7.5 and 8 per cent for several years, leaving the core inflation rate at around 4.5 per cent. A downward shift in earnings and prices is seen by the OECD as essential, both to hold out the prospect of any sizeable reduction in unemployment and to achieve a sustainable external position.

Without it, Britain could find itself with an "overheating" economy while 10 per cent of its workforce are still without jobs.

Philip Stephens



France

Setting a new course

DESPITE A sudden and still unexplained attack before the summer *holidays* of popular *jitters* over the underlying competitiveness of the national economy, France still enjoys a *comparatively favourable position* vis-a-vis its main trading partners.

The economic situation has, it is true, *deteriorated somewhat* since last year, but as the OECD points out in its mid-year assessment, *Economic Outlook*, "a number of underlying trends still point in the right direction".

The deterioration is clear-cut: activity has slowed, while unemployment has risen and inflation has re-accelerated. On the *other* hand, the positive elements are also clear: wage growth is expected to remain moderate, at least partly because of the rise in unemployment; and the rise in unit labour *costs should* be among the lowest among the major OECD countries.

Improving external competi*tiveness should make it* possible to stem the loss of export market shares, at least in European markets; and the strong growth in profits that took place last year should prompt companies to step up their investment.

And yet in the political context of next spring's presidential election campaign, which in practice has been under way ever since the general elections of March last year, the indications of economic downturn seem more salient than the symptoms of underlying strength:

- The growth rate of GDP is expected *to slow this year almost* by a full percentage point, from 2.2 per cent to 1.3 per cent;
- Total employment is forecast to decline by 0.5 per cent, raising the rate of unemployment from 10.7 per cent to 11.2 per cent;
- The rate of inflation is expected to rise from 2.1 per cent to 3.5 per cent; and
- The surplus in the current balance of payments, which reached FFr23.6bn in 1986, is likely to disappear in 1987 and be replaced by a bare equilibrium.

The deterioration in the external balance is partly due to a decline in exports of armaments, a field in which France has traditionally been one of the world's leading suppliers. In 1986, the armaments surplus reached a total of FFr34.3bn, whereas during the first five months of this year it was running at a significantly lower level, around FFr2.1bn a month.

INSEE, the French national statistical office, warns that this could be the beginning of a lasting phenomenon. On the one hand, the decline in the oil price has sharply reduced the purchasing power of France's leading customers for armaments; on the other, the decline in the value of the dollar and the pound have given an edge to France's main customers in this field.

The problem is that there has also been a deterioration in the external balance of non-military manufactured goods, notably in a dip during the first quarter of this year in exports of capital equipment. From one year to the next, INSEE forecasts that the export surplus in *manufactured goods will fall* from FFr35bn in 1986 to FFr9bn in 1987.

However, the current account was in surplus in 1986 to the tune of FFr25bn, or 0.5 per cent of GDP, which made it easier to reduce the Government's external debt to a total of FFr7bn.

On the whole, the OECD judges that conditions are ripe for continued restructuring of the French economy, but warns that there are still major uncertainties, especially over corporate behaviour.

In particular, it claims that competitive pressures are *still* insufficient in many sectors, and that continued recovery will need more efficient production and sustained investment. The problem here is that companies may hold off from investment because of uncertainties over the future, starting with the political outlook after the forthcoming presidential elections, *especially* since the high returns on financial investment may seem more attractive than investment in capital equipment.

If major uncertainties remain over corporate behaviour (to quote the words of the OECD report), this is scarcely surprising.

For decades - some would say for centuries - France has depended on a state-centred tradition of economic activity, and the assumptions of administrative intervention and effective protection (scarcely disguised as "market organisation") survived unscathed the first quarter-century of the so-called Common Market of the European Community.

In reaction to five years of socialist government, the 1986 elections brought to power perhaps the first government in French history to be genuinely committed to a liberal, deregulated, non-protectionist economic policy. This conversion to free-market ideas is the more remarkable in that the Chirac government lays much greater emphasis in its public declarations on the target date of 1992, set by the EC for the final removal of all obstacles to trade between the member *states*, than it does on the date for the presidential elections, or than Mrs Thatcher's government (normally identified as a standard-bearer in the shift towards

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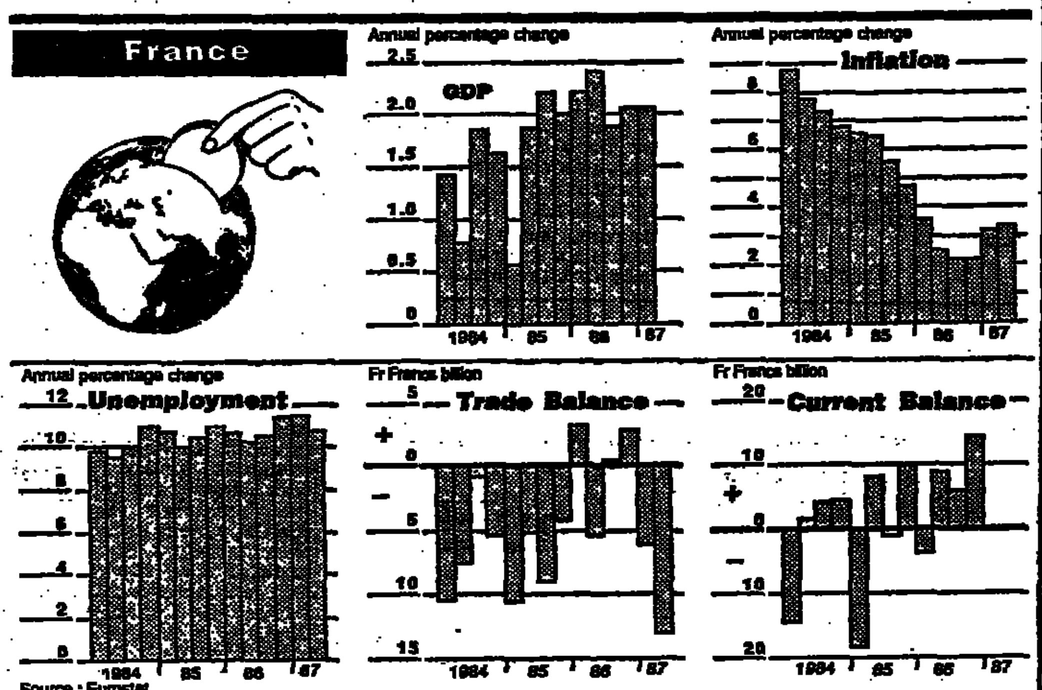
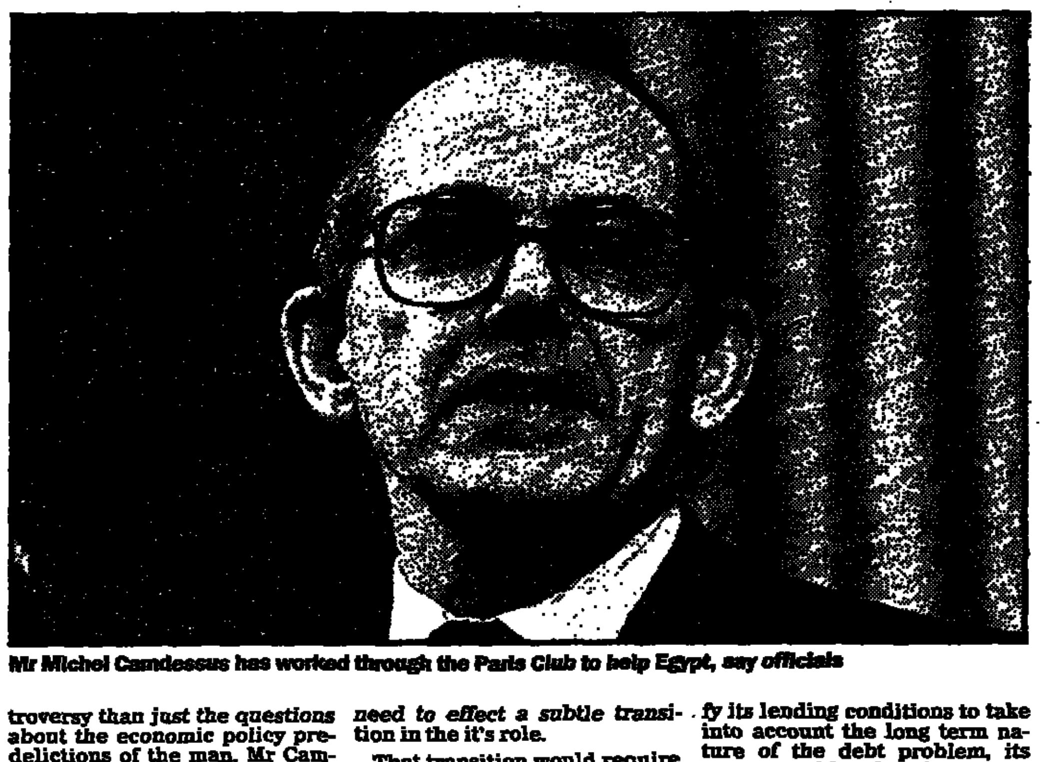


Profile: Michel Camdessus

Gallic hands prove safe enough



Mr Michel Camdessus has worked through the Paris Club to help Egypt, say officials

WHEN MICHEL Camdessus, the head of the French central bank, took over from his fellow countryman Mr Jacques de Larosiere as managing director of the International Monetary Fund earlier this year, those inside the secretive Washington-based institution were under no illusions about the daunting challenge he faced.

Today, however, even some of those IMF officials who had reservations about the choice are saying privately that perhaps their initial judgments were wrong, and that Mr Camdessus may prove to be the best man for the job at this point in the IMF's history.

Arguably, no managing director of the IMF has taken office amid such controversy and at so difficult a moment in the institution's evolution.

In part, it was the fact that the issue of who should replace Mr de Larosiere developed into such an unseemly public fracas that accounted for the controversy surrounding the appointment.

The European countries, who by tradition nominate the fund managing director, were unable to decide among themselves whether they would prefer Mr Camdessus or his chief rival Dr Onno Ruding, the Dutch finance minister, to fill the job; and Dr Ruding, somewhat surprisingly, mounted a public campaign for the post, a campaign which backfired.

The opposition to Mr Camdessus focused in part on the fear that the IMF managing directorship was in danger of becoming something of a French preserve at a time when several other top international monetary jobs are also in gallic hands.

But there was also concern that Mr Camdessus, a man who had won a reputation as a friend to the developing world during his tenure as chairman of the Paris Club (the agency which renegotiates official debts with developing countries), would not be a tough enough leader at the IMF.

The fact that several major developing countries favoured him, and eventually were decisive in ensuring his selection, only deepened the reservations among some of the more conservative industrial countries.

But there was more to the controversy than just the questions about the economic policy predelictions of the man. Mr Camdessus's appointment came at a time when the question of the future role of the IMF itself, at least so far as its involvement in the Third World debt crisis is concerned, was also being hotly debated.

The initial crisis phase of the debt problem was clearly passed, and the authoritarian style of IMF leadership provided by Mr de Larosiere needed to change. Not only was IMF crisis management not up to the job of forcing commercial banks to commit large sums of "new" money to debt-burdened borrowers, the IMF itself had, in the words of Mr Paulo Sotero, a leading Brazilian journalist, become "Satanised" in the eyes of the debtor nations.

The credibility of the IMF recipe for economic rehabilitation, in the eyes of those nations who were being asked to apply the IMF medicine, was worn out. It was recognised therefore that the new managing director, if it was decided that the institution should continue to play a role in the debt crisis, would need to effect a subtle transition in the it's role.

That transition would require the IMF, an institution which has essentially had a short-term time horizon when it has lent to countries in economic difficulty, to adapt its operations to the reality that the debt crisis is a long-term problem.

To do this, it will need to put greater emphasis on stimulating economic growth in the longer term, without losing sight of the fact that its essential character is that it lends on condition that borrowers take the tough economic adjustment decisions which are also needed to improve their economic performance.

Were it to modify too much the conditions under which it provides funds, the discipline of its economic policy prescriptions would be eroded, undercutting the value of the "seal of approval" that it can bestow on a borrowing country's economic policies, and which has been one of the foundations that private lenders have relied on in providing more funds.

Conversely, if it fails to modify its lending conditions to take into account the long term nature of the debt problem, its stature with the borrowing countries would diminish, further undermining its usefulness in the eyes of already sceptical debtor nations.

The fact that its major providers of funds, the industrial countries, are not in the mood to commit substantial new financial resources to the IMF, to make it easier for it to take a longer term view of how the economic adjustment process in borrowing countries should work, further complicates the task of changing its mode of operation.

Even before Mr Camdessus came onboard there were signs, in the IMF programme designed for Mexico and in the intensely controversial discussions over the problem of what role it should play in trying to help Egypt deal with its economic problems, that the IMF's role was changing.

Under Mr Camdessus, the signs of change have become more evident. Officals say, for example, that he has worked through his old bailiwick, the Paris Club, to get lender governments more deeply committed to trying to help Egypt tackle its problems in a time horizon which stretches beyond the typical IMF programme.

In the weeks before the Venice summit, convinced that the IMF needed to play an active role in Africa (not least because of the large sums it has lent there and the danger that they could turn into losses), he came up with a bold proposal to establish a new $7bn fund to finance the IMF's continuing involvement there.

This initiative was seen as evidence both of his readiness to take high-risk initiatives and of the determination and skill with which he can pursue his goal. He succeeded in getting the support of the heads of state at the Venice summit for the move after reportedly out-manoeuvring a sceptical US Treasury. Whether he will succeed in bringing the initiative to fruition remains to be seen however.

Unlike his predecessor - who hid his personal warmth from his staff and the people he dealt with, drove the IMF bureaucracy mercilessly, and held the reins of power tightly in his own hands - Mr Camdessus applies his personal charm to try to achieve his goals. But he does not shrink from tough decisions.

For example, with very little fanfare and without the sort of public recrimination which has accompanied the World Bank reorganisation, he has carried out a sweeping reform of the IMF staff.

One only has to look at the storm clouds on the horizon, the continuing refusal of Brazil to negotiate a programme with the IMF, the threat that Argentina will take a much tougher line vis a vis its creditors, to see that Mr.Camdessus's term as managing director is likely to be as exciting as Mr de Larosiere's; perhaps even more so, if the United States finds itself forced to turn to the IMF again for funds.

Unlike Mr Barber Conable at the World Bank, however, Mr Camdessus's first months in office have inspired confidence that the institution is in good hands.

Stewart Fleming

Profile: Alan Greenspan

Seeking credibility in Volcker's shadow

Mr Alan Greenspan: decades of experience

ONE MONTH after taking office, Mr Alan Greenspan, the staunch Republican and former chairman of the Council of Economic Advisers under President Gerald Ford, who replaced Mr Paul Volcker as chairman of the Federal Reserve Board, moved to underpin his rhetoric with a practical demonstration of his anti-inflationary zeal.

With the financial markets speculating that the new chairman had already tightened monetary policy, or was on the verge of doing so, the Fed announced on the morning of Friday September 4, ahead of the long Labour Day holiday weekend, that it was increasing its discount rate by half a percentage point to 6 per cent - the first such increase since April 1984.

It is a move which Mr Greenspan's friends on Wall Street will have welcomed. One of the biggest challenges facing him at the central bank is to emerge from the shadow of his legendary predecessor and build credibility in the world's financial markets as a man who will be no more tolerant than Mr Volcker of inflationary pressures.

For, at a time when the huge US current account deficit has made the economy dependent on foreign capital, and fiscal policy remains stalemated, it is the credibility of the Fed's monetary policy, and therefore of the chairman of the central bank, that is Washington's strongest bulwark against an economic disaster.

There can be little doubt that the unanimous decision, by Mr Greenspan and three of his colleagues on the Fed board, that a discount rate increase was called for will have helped to reassure some sceptics. They have been suggesting that the new Fed chairman, in part because of his desire to see a Republican elected president next year, would not act as decisively as his predecessor in trying to prevent inflation getting out of control again.

Indeed, some Wall Street economists were quick to conclude that the move signalled that the Fed was ready to move to fight inflationary expectations. It could indeed, they argued, quell the financial market's fears about Mr Greenspan's own anti-inflationary zeal.

But this must remain an optimistic assessment. The test posed by the discount rate decision was one which it would have been difficult for the new chairman not to pass. More difficult judgments almost certainly lie ahead.

Moreover, if the new Fed chairman is to emerge as a figure as influential on the world stage as his predecessor, and therefore to help provide the economic policy leadership which increasing international interdependence requires from the US, he will have to do more than merely draw upon the knowledge he has gathered as an economic consultant and an adviser to Republican presidents.

The 61-year-old Mr Greenspan brings to the job decades of experience as an economist. It was in 1953 that he set up his economic consultancy firm in New York, Townsend Greenspan. Over the years he has built a reputation as an expert economic forecaster, and a man who immerses himself in the intricate details of economic statistics in order to come to his judgments. There is little doubt that he knows far more about the US economy, particularly about American industry, than any of his peers, and certainly more than Mr Volcker.

He is also a man who has, in the past, demonstrated his conviction that inflation is indeed a scourge that cannot be tolerated if the economy is to function efficiently.

But alongside these considerable assets, Mr Greenspan also possesses liabilities - some of which were evident when he testified before the Senate Banking Committee in his confirmation hearings.

Rightly or wrongly, he is viewed with suspicion by many on Wall Street, and of course by Democrats on Capitol Hill, because of his Republican roots. Both the markets and some Democrats worry that he, and a Fed board consisting entirely of people appointed by President Reagan, will run an easy monetary policy aimed at keeping the economy rolling forward in the run up to the 1988 elections.

While the September decision to raise the discount rate begins to address this doubt - indeed, it may have been influenced in part by the desire to ease uncertainties on this score - the fact remains that the plunging bond market, in the weeks before the Fed moved, represented a bigger threat to US economic expansion than the increase in a discount rate, which was already low by comparison with money market rates. The weakness of the dollar and the evidence that the US economy was picking up steam reinforced the case for a monetary policy tightening.

Those who have doubts about Mr Greenspan's effectiveness at the Fed also point out that, as an economist, his expertise has been primarily in the field of the US economy, in particular its industrial sector; that he is less knowledgeable about financial markets in general and international finance in particular; and that he certainly does not have the years of experience in international economic diplomacy and economic policy making that Mr Volcker brought to the job.

This is a significant gap at a time when there is widespread agreement that economic policy co-operation between the major industrial countries could help to resolve ominous imbalances in the world economy.

Mr Greenspan's judgment, in his confirmation hearings, that the president is right to resist a tax increase in order to tackle the budget deficit, was good domestic politics, but did not go down well abroad. Some developing country officials, not to mention Senator Bob Graham of Florida, who asked the question, seemed less than impressed, too, with his judgment that we would know that the Third World debt crisis was over when heavily indebted countries could borrow again on the Euromarkets.

There are some in the Federal Reserve who believe that Mr Greenspan, like others in the past who have been appointed to the board, will quickly absorb the unique culture of the institution and, when faced with the practical complexity of policy making in the central bank, his essentially pragmatic nature will enable him make the sound judgments on the wide range of economic and political issues which a Fed chairman has to deal with.

The sceptics, particularly decision makers in the financial markets, remain to be convinced, however.

Stewart Fleming

Brighter but not much

Continued from page 1

It is those circumstances a decision this week to re-affirm the Louvre accord is likely to represent the continuation of what one senior European official confessed was a policy of "muddling through".

The approach to the debt crisis is likely to be similarly "pragmatic". As the IMF's annual report emphasises, slower growth in industrial countries, further declines in real commodity prices, and a virtual cessation in private sector lending has dealt a further blow to the financial position of developing and heavily-indebted nations.

Despite a very low level of borrowing and the fall in interest rates in 1986, the developing countries' ratios of debt and debt service to exports continued to worsen.

The decision by major US and UK banks dramatically to increase their provisions against sovereign debt looks, at first sight, like welcome realism, but the risk is that it will lead to a hardening of their position in future debt negotiations.

That would coincide with increased evidence of a steady erosion in the indebted countries of the political resolve and support needed to push ahead with structural adjustment programme - a trend underlined by the recent elections in Argentina.

"Adjustment programmes involve difficult choices for governments, and political support cannot be sustained unless adequate finance needed to implement these programmes is made available", the World Bank concluded it its annual report.

The problem is that the industrialised world needs to do a lot better than muddle through with a 2.5 per cent growth rate to offer any realistic prospect of that happening.

On a new course

Continued from page 11

liberal economic policies) does in Britain.

The suddenness and the sharpness of this conversion may go some way to explain hesitations in the corporate sector over fixed investment. And yet it was the outgoing Socialist government which started the switch towards deregulation of certain financial markets, while the incoming centre-right government has gone full steam ahead in dismantling exchange controls (the favourite stand-by of interventionist and protectionist governments), and in privatising not just industrial and financial companies, which had been nationalised by the preceding Socialist government, but also companies which had been nationalised in the immediate aftermath of the Second World War.

The implication, therefore, is that France is set on a new course of broadly liberal macroeconomic policies, and that this course will not be significantly diverted by conjunctural developments. The new consensus is that France, after all, is not an imperial power with Colbertiste ambitions to control an isolationist destiny, but rather just another European country among a group of European countries, some of which may, for unaccountable reasons, be more competitive than France.

Such an egalitarian view is obviously not comfortable for the French, but it seems to be slowly gaining ground in France. If so, one should assume that the initiatives of the centre-right government will prove relatively durable, unless by chance an abrupt unwinding of the American budgetary and balance of payments deficits should lead to a hard landing and an abrupt intensification of the trade conflict between Washington and Europe.

Ian Davidson

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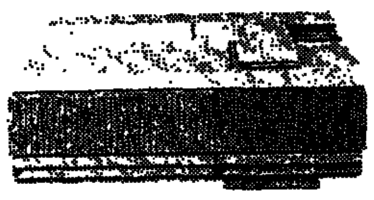

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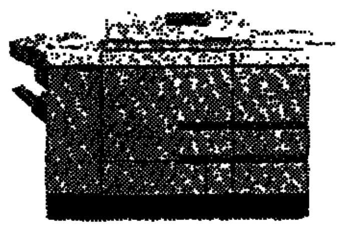

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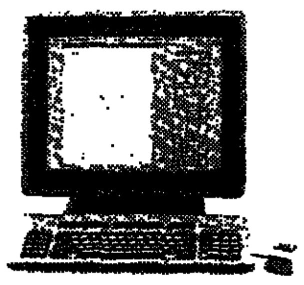

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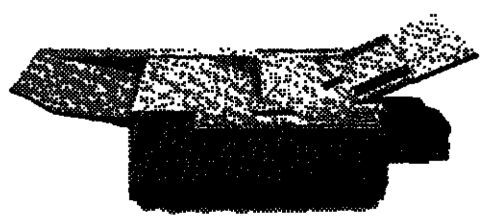

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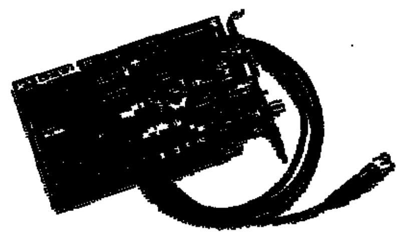

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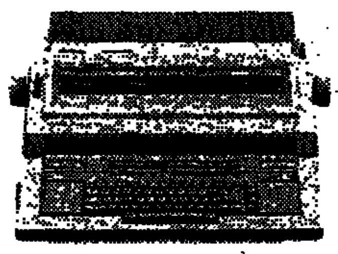

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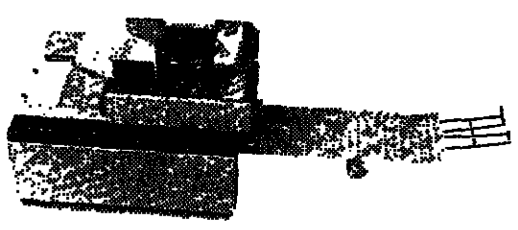

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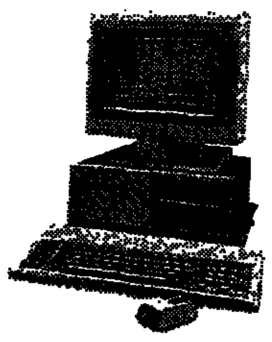

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SECTION II – COMPANIES AND MARKETS
FINANCIAL TIMES
Monday September 28 1987

INTERNATIONAL BONDS

Determined search for elusive retail investor

"A WEEK'S a long time in the Eurobond market; after all, seven days ago we were saying the Eurodollar sector was coming alive again," commented one dealer gloomily on Friday.

The week before last ended on a cautiously optimistic note for the Eurobond market, since two large dollar issues for Italy and Sweden had been launched successfully. So some dealers were declaring that retail buyers of Eurodollar bonds could still be found, provided borrowers kept out of the long-end of the yield curve.

On Friday, the Financial Times did in fact receive an inquiry from a retail investor in south east England, wanting to know where he could buy Eurobonds.

Eurobond sales teams were having less luck in tracking down these elusive beings, as was underlined by the dismal performance of last week's *two shorter-dated bonds for* the US corporates Ford Motor Credit and American General.

Ford Motor Credit's three-year issue, launched on Wednesday at an initial yield margin of 60 basis points over the US Treasury yield curve, was yielding some 10 basis points more than this by Friday and was bid at less two, against 1⅞ per cent fees.

The performance of American General's bond, which carries a seven-year maturity but with an investor's put option after three years, was hardly more edifying. Priced at 50 basis points over the US Treasury curve, it was bid at less 2.60 and its yield margin had widened to about 80 basis points.

Admittedly, these issues came during a week when bond markets were afflicted not only with unease ahead of the weekend meetings of economic policy-makers in Washington but also with worries about rising inflation.

Nevertheless, on Friday afternoon Italy's $1bn three-year bond was trading at a yield spread of *about 50 basis points* over the Treasury yield curve – some 10 basis points tighter than at launch – although this implied a price outside its 1⅞ per cent fees.

EUROMARKET TURNOVER
Turnover ($m)

Primary Market	Straights	Conv	FRN	Other
US$	1,296.0	952.0	—	5,459.6
Prev	2,280.0	921.9	13.4	5,987.2
Other	916.2	289.1	104.5	420.2
Prev	1,043.3	548.0	—	589.6
Secondary Market				
US$	23,297.7	2,423.0	11,642.6	6,413.6
Prev	23,555.9	2,561.4	11,374.8	5,308.4
Other	20,329.4	1,199.5	6,227.6	15,653.1
Prev	21,773.2	1,669.3	5,462.5	24,008.9

	Cedel	Euroclear	Total
US$	14,801.7	35,663.8	51,465.5
Prev	15,719.1	36,161.9	51,881.0
Other	19,110.7	25,928.9	45,039.6
Prev	19,869.2	36,219.6	55,088.8

Week to September 24 1987 *Source: AIBD*

This contrast provided further grist to the mill of those who maintain that the Eurobond market is now sustained by treasury departments seeking alternatives to money market instruments, rather than by retail buyers.

This is because such liquidity managers find a sizable issue for a sovereign credit an acceptable investment, while a $200m bond for a US corporate borrower, such as Ford, is not.

Yields rose in all the main bond markets – except the Danish kroner market – last week as a host of signals rekindled unease about rising world-wide inflation. Notable among these was the 0.5 per cent August rise in US consumer prices and a statement by Mr Satoshi Sumita, the governor of the Bank of Japan, that the prospects for inflation should now take first priority in Japan's economic management.

In the D-Mark bond market, prices moved downwards in sympathy with US Treasury bonds. D-Mark dealers received an additional shock when the Bundesbank increased the rate on its securities repurchase agreement from 3.60 to 3.65 per cent, even though the West German authorities insisted this did not signal any tightening of their monetary stance.

In a continuing absence of retail buyers from both Euro und government bond sectors of the market, the one spot of light was the runaway *success of a new DM2bn 6¾* per cent 10-year bond for the Federal Post Office.

But dealers noted that the issue had been priced to provide an unusually high yield, which was roughly comparable with those of domestic bonds issued by banks – a higher margin over West German government bond yields than would usually be expected.

However, the differential between yields on domestic bank bonds and government bonds has been narrowing markedly recently and now stands at only around 10 basis points. Dealers are hoping that this slim margin should provide an incentive for domestic investors to switch back into the government market.

The D-Mark Eurobond market has been in what one dealer described as a "torpid" state since the mid-summer. New issue volume has dwindled because rising yields have kept borrowers on the sidelines, hoping for lower funding costs. At the same time, D-Mark-related swaps into other currencies have become *increasingly uneconomic* compared with alternatives in other currencies.

In this environment, West German bankers expect the new liberalising measure announced by the Bundesbank last week – whereby Japanese banks and securities houses will be allowed to lead manage issues for the first time – to be very limited for the time being.

The main effect could be the diversion into D-Marks of some of the stream of equity warrant bonds for Japanese companies which the Japanese houses now launch in the Eurodollar market. However, this depends on the relative cost of swapping the proceeds back into yen: at present this can be achieved at a rate of about 1 per cent in the Eurodollar market.

Clare Pearson

NYSE attempts to untangle bid battle for Newmont Mining

BY JAMES BUCHAN IN NEW YORK

THE NEW YORK Stock Exchange *intervened over the weekend in the* tangled legal battle for control of Newmont Mining, the US gold and energy group, when it attempted to uphold last week's huge purchase of Newmont Mining stock by Consolidated Gold Fields, the UK mining finance house.

In a suit filed in a New York state court, the exchange is seeking to block efforts by Mr T Boone Pickens, the Texas oil man, to invalidate the purchase of 15.8m shares of Newmont Mining by Gold Fields. *The exchange said that undoing the* trades would cause "irreparable" harm.

The stock, which was bought on Tuesday in a breathtaking $1.55bn "sweep" on the exchange floor, would give Gold Fields a 49.7 per cent holding in Newmont Mining – enough effectively to thwart a Pickens tender offer for 51 per cent of *the $6bn company.*

In its motion to intervene in the case, the exchange urged the Delaware chancery court not to accede to the request of the Pickens group and enjoin Gold Fields from settling the share trades. The Pickens group, which is known as Ivanhoe Partners, alleges that the shares were purchased by Gold Fields as part of an illegal agreement with Newmont Mining to "lock out" other shareholders.

While stressing its neutrality in the takeover struggle, the exchange warned that an injunction against the transactions would mean "a chain of defaults would be set off, seriously disrupting" the operations *of the stock exchange.* "Investors could never rely on the finality of any particular sale of their securities," the suit said.

EUROCREDITS AND NOTES

Chase wins mandate for $500m American Airlines standby deal

AMID TOUGH competition from seven other bank groups, Chase Manhattan has won the mandate to arrange a $500m standby financing for American Airlines.

American, regarded as one of the most cash-rich of the US airlines, is about to embark on its most significant capital expansion yet.

According to Mr Roy Grant, managing director of banking at the airline, it is running down its cash balance – which has been around $1bn for the last two years – to about $500m. It wants the financing to give it similar flexibility to its cash balances, and consequently does not expect to draw down the financing.

Chase is underwriting the full amount of the financing, which is in the form of a multi-option facility carrying a five-year maturity, extendible to eight. Banks can opt out in the fifth, sixth or seventh years, if they give five years' notice.

Mr Grant declined to specify the terms. But the airline is not known for giving much away, and the deal is certain to be aggressively priced. Best guesses by bankers suggest a facility fee of 7 to 7.5 basis points, an arrangement fee of close to 10 basis points and a borrowing margin of about 12.5 basis points.

Still with the airline industry, the story of the difficult $1.5bn aircraft finance deal for GPA Group was almost wrapped up last Friday (except for the secondary syndication which the 11 underwriting banks *have been promised in six to nine* months' time) when the deal was signed.

But not before the underwriters, already in for far more than they intended (about $110m each), received one more nasty shock. Their final underwriting was increased by another $7m each, as one bank cut the amount of its participation to $25m from $100m. The bank, Arab Banking Corporation, was said to have been dissatisfied with the documentation.

There was controversy too over Citicorp's $800m short-term financing for Montedison, the Italian chemicals concern, to cover part of the $1.6bn share purchase which will give it control of Himont, the US polypropylene manufacturer.

Banks committed a huge $3.6bn for the deal in six days, underlining the flexibility of the market and somewhat reminiscent of the $5bn financing earlier this year for British Petroleum, to which banks committed $1.5bn.

Bankers agree that borrowers can generally expect to pay more for acquisition finance required at speed. But many believe that the margin of ⅜ point was too rich, even for a borrower whose debt burden has been rising significantly. The evidence, they said, was provided by the extent of oversubscription and the yield and the speed at which the paper appeared in the secondary market.

The levels in the secondary market were quoted at 20 basis points, 17.5 basis points below that in the primary market, or even lower in some cases. While this implied a quick profit for the banks involved, that did not stop them complaining about the transaction, probably because Citicorp's profit for underwriting the whole deal would have been even larger.

In other financings, Merrill Lynch has been mandated to raise $100m in the form of a revolving underwriting facility for Swedbank of Sweden. The five-year financing is to be used as a standby to back up issuance of US and Euro-commercial paper issuance.

Chase is raising a $50m standby revolving credit for Nykredit, the largest mortgage credit institution in Denmark which is about to embark on home lending in the UK, Germany and France. It has a five-year maturity, a commitment fee of 5 basis points and a margin of 12.5 basis points.

In sterling, National Westminster Bank was awarded the mandate to raise £140m for Chase Property Holdings.

Associated British Ports announced a £50m sterling commercial paper programme, *arranged by* Kleinwort Benson, with BZW and County NatWest also acting as dealers. The State Bank of Australia announced a £50m sterling certificate of deposit programme with Baring Brothers and S.G. Warburg as dealers.

Most exotic deal of the week was in French francs for Cameroon. It is borrowing FFr183.5m to finance tractor imports from Brazil. Cameroon pays 8 per cent and the Brazilian export credit agency tops this up to Libor plus 2.375 per cent.

Stephen Fidler

Amro unit buys stake in US services group

By Our Financial Staff

EBC AMRO, the London-based merchant banking arm of Amro Bank of the Netherland, has bought a 30 per cent *stake in Amsterdam* Pacific Corporation in San Francisco. APC was formed last year to provide investment banking services to companies primarily in the western US.

APC's management will retain a 55 per cent interest in the company, with the remainder held by Bechtel Investments.

China International Trust and Investment Corporation (Citic), China's leading overseas investment organisation, is investing in a development fund of $6m which will be managed by APC

Austrian group expands with bourse debut

By Judy Dempsey in Vienna

RADEX-HERAKLITH, the Austrian building, insulation and fire-fighting equipment group which *exports to over 70 countries, is float*ing 25 per cent of its shares on the Vienna stock exchange today as part of the group's expansion programme.

The public will be offered 856,000 shares at a nominal value of Sch100 ($6) per share. About 4 per cent of the shares will be ear-marked for the foreign market.

Radex-Heraklith was sold in a management buyout by General Refractories of the US for Sch800m to Girozentrale, the Austrian bank, in April. The bank was acting for a consortium of international investors

INTERNATIONAL CAPITAL MARKETS

UK GILTS

Fresh confidence nipped in the bud

WHATEVER THE potential scope for distortions in August's balance of payments, Thursday's figures undoubtedly confirm a deterioration in the underlying trend and could not have been less welcome the day after a rather thinly subscribed gilts auction.

By all accounts, retail demand for the auction issue was very poor—market talk suggests that at least two houses were left with a lot of unwanted stock. The body blow for the rest of the market came on Thursday, when primary dealers not only had to face an overhang of supply but a two point fall in prices.

There appears little doubt that the Bank of England had enough prior knowledge of the money supply figures which preceded the auction to have made last Thursday a reasonably auspicious date for the sale. The fact that the auction came only one day before the unexpected blow to fragile market confidence from the trade figures, one supposes, was fortuitous for the authorities. It was very damaging to the market-making community.

The combination of last week's two principal features seems to have been to nip in the bud what looked like a re-emergence of confidence after the disasters of the summer and the establishment of a range in single-figure yields. The benchmark 2003/07 stock ended on Friday with a yield of somewhat above 10.1 per cent.

Perennial problem

Initial analysis of August's trade figures (and the fact in itself that it was August) suggests there has probably been the perennial problem with the seasonality of car purchases, which caused a huge leap in the DTI's index for car import volumes.

There seems little doubt that the current gap between buoyant British demand and world growth cannot be sustained. World growth has been particularly sluggish so far this year and the current slightly-above-trend growth in the US is widely forecast to slow down next year. The closing of this growth gap should naturally ease current unfavourable trends.

More comfort can be taken from the fact that sterling has so far proved resilient to worries about the current account deficit. The stability of sterling must lie behind the Chancellor's assertion that this order of current account is not inflationary and should also prevent any tightening of monetary policy. Domestic money markets seemed rock solid by the end of last week, which should be a steadying influence.

However, there were some genuinely gloomy aspects to the trade figures, not least the decline in capital goods in August, the one element in imports which government officials have pointed to as positive at least in the longer term.

Growing imports

Economists at Goldman Sachs point out the trend in both import and export volumes has sharply deteriorated since the first quarter of this year. They say exports have been about flat over this period while imports have been growing at annualised rates of more than 30 per cent.

And far from attributing some of the deterioration in exporting performance to sterling's rise this year, Goldman Sachs argues its recovery this year has actually improved the current account so far by depressing import prices.

The Chancellor's Budget forecast for a £2.5bn current account deficit this year now looks far less pessimistic than it was beginning to a few weeks ago.

Gilts recovered modest ground on Friday. Yields of more than 10 per cent do look more than fair value but there is now bound to be a sense of underlying nervouseness in the market, at least until the next set of trade figures on October 23.

The next two weeks are going to be quiet as far as economic indicators are concerned, with only the official reserves figures for September, expected this Friday, and the retail prices index for the same month, due on Friday next.

At least for the early part of this week, it seems likely that the gilt market will turn to watching the dollar's reaction to the frankly unexciting G7 communique published over the weekend in Washington. Although the foreign exchange market had not expected much, and has not got it, there is still scope for disappointment which could put pressure on the dollar.

Janet Bush

US MONEY AND CREDIT

All eyes fixed on Washington

TRANSFIXED LIKE frightened rabbits, bond, stock and foreign exchange investors around the world are staring towards Washington. They alternately hope and dread that something—almost anything—will come out of the finance ministers' and central bankers' cabals at the annual meeting of the International Monetary Fund and World Bank.

Yet what can the markets possibly expect the finance ministers to tell them that they do not already know? Nobody in Washington is suddenly going to repudiate the Louvre agreement on foreign exchange stability. Neither will the finance ministers tell the markets if they have changed the "reference ranges" within which the currencies are being manipulated, or say that a recession is imminent or that inflation is rising out of control.

Rarely, in fact, have the policies and objectives of international economic leaders been clearer, more consistent or more united, than they are at present. For the time being, at least, al three of the leading industrialised countries want stable exchange rates and moderate economic growth in the 2 to 3 per cent range. Their fiscal policies have been announced and are unlikely to change in the foreseeable future; the US is very cautiously cutting its underlying budget deficit, while the Japanese and Germans have implemented all the stimulative measures which they intend to take.

President Reagan himself may be an exception to this consensus, judging by his indecision in signing the Gramm-Rudman deficit reduction amendment. However, the President is now almost irrelevant, even in Washington, and the longer-term trend in Congress is clear—the budget deficits will be reduced, whoever wins the next election, though the change will be a very slow one and take many years.

On the monetary side, all three of the leading industrial nations are concerned about inflation expectations and, in Japan especially, about the rampant speculation in property and financial markets. As a result, there is a slight monetary snugging going on around the world, though this is subject to two all-important constraints.

The tightening must not be allowed to upset the delicate balance in the foreign exchange markets. And it need not go very far, since the objective is to undercut an inflation which is only incipient in America and only a future potentiality in Germany and Japan. The threat of pushing all of the world economy into recession, on the other hand, is still very much present.

Why then are the markets waiting so neurotically for the authorities' guidance? Where are the swashbuckling individualists who used to tell the world only a few years back that central banks were powerless against the tides of speculation in the foreign exchange markets?

The people who used to say that currency intervention was doomed to failure were obviously wrong. Yet the pendulum may now have swung too far to the opposite extreme.

A parallel but opposite transformation has taken place in people's attitudes to interest rates and inflation. It used to be claimed, in the heyday of dogmatic monetarism, that a tightening of monetary policy would actually reduce long-term interest rates, instead of increasing them, because of the favourable effect that tighter money had on inflationary expectations.

Bitter experience has shown this claim to have been greatly exaggerated. But this does not mean that monetary tightening is totally doomed to failure in dealing with inflation — which seems to be what many investors think, to judge by the carnage in bond markets throughout the world.

It used to be thought, in other words, that currency intervention was impotent, while domestic monetary policy was all-powerful. Now the conventional wisdom seems to espouse the opposite view — that currencies are being stabilised successfully through intervention, while every tightening of monetary policy is a further indication that inflation and economic growth are about to soar out of control.

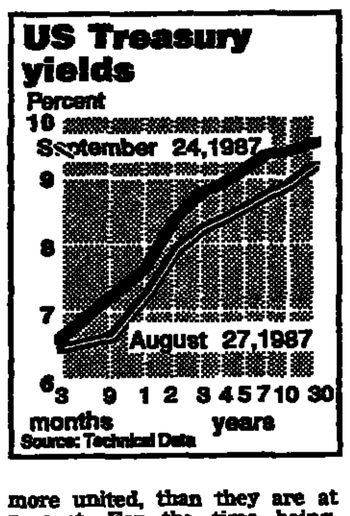
Deep down, of course, investors realise that neither extreme view is true. Anybody who puts too much faith in G-7 accords may eventually lose a lot of money. And anybody who is too contemptuous of the central banks' ability to control their domestic inflation rates may miss out on a powerful recovery in the world's bond markets. Hence the extraordinary uncertainty in the markets, at a time when international policies have rarely been more certain.

* * *

The following are the statistics due for release this week, along with the market's expectations, as surveyed by Money Market Services of Redwood City, California:

- Leading economic indicators (Wednesday 8.30 am EDT) are expected to show an increase of 0.5 per cent, with estimates ranging from 0.2 to 0.8 per cent up.
- Money supply figures (Thursday 4.30 pm) will include the broad aggregates, M2 and M3, as well as the weekly M1 announcement. M1 is expected to be up $3.7bn, with estimates ranging from $1bn to $4.5bn. M2 is forecast to grow by $14bn, with a range of $10bn to $17bn and M3 by $14.5bn with a range of $9bn to $21bn.
- Unemployment (Friday 8.30 am) should remain unchanged at 6 per cent of the civilian labour force, with estimates ranging from 5.9 to 6.2 per cent.
- Non-farm payrolls (Friday 8.30 am), a closely followed series which is thought to be a good advance indicator of industrial production figures, should be up by 190,000, with estimates ranging from 135,000 to 280,000.

Anatole Kaletsky



US MONEY MARKET RATES (%)

	Last Friday	1 week ago	4 wks ago	12-month High	12-month Low
Fed Funds (weekly average)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Three-month Treasury bills	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Six-month Treasury bills	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Three-month prime CDs	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
30-day Commercial Paper	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
90-day Commercial Paper	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

US BOND PRICES AND YIELDS (%)

	Last Fri.	Change on wk	Yield	1 week ago	4 wks ago
Seven-year Treasury	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
10-year Treasury	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
30-year Treasury	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
New 10-year "A" financial	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
New "AA" Long utility	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
New "AA" Long industrial	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Source: Salomon Bros (estimates).
Money Supply: In the week ended September 14 M1 rose by [illegible] to [illegible].

NRI TOKYO BOND INDEX

December 1983 = 100	24/9/87	Average yield (%)	Last week	12 wks ago	24 wks ago
Overall	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Government Bonds	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Municipal Bonds	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Government-guaranteed Bonds	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Bank Debentures	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Corporate Bonds	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Yen-denominated Foreign Bonds	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Government 10-year†	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

† Estimated par yield.
Source: Nomura Research Institute.

FT/AIBD INTERNATIONAL BOND SERVICE

US DOLLAR STRAIGHTS

	Issued	Bid	Offer	Chg on week	Yield
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

FLOATING RATE NOTES

	Spread	Bid	Offer	C.dte	C.cpn	C.yld
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

CONVERTIBLE BONDS

	Cnv. date	Cnv. price	Bid	Offer	Chg. day	Prem
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

YEN STRAIGHTS · D-MARK STRAIGHTS · SWISS FRANC STRAIGHTS · LUXFR STRAIGHTS · GUILDER STRAIGHTS · CANADIAN DOLLAR STRAIGHTS · ECU STRAIGHTS · AUSTRALIAN DOLLAR STRAIGHTS · STERLING STRAIGHTS · EQUITY WARRANTS · BOND WARRANTS

	Issued	Bid	Offer	Chg on week	Yield
[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

STRAIGHT BONDS: Yield to redemption of the mid-price. Amount issued is expressed in millions of currency units except for yen bonds, where it is in billions. Change on week = Change over price a week earlier. FLOATING RATE NOTES: US dollars unless indicated. Margin above six-month offered rate (‡ three-month; § above mean rate) for US dollars. C.cpn = current coupon. CONVERTIBLE BONDS: US dollars unless indicated. Prem = percentage premium of the current effective price of buying shares via the bond over the most recent share price. WARRANTS: Equity warrant prem = exercise premium over current share price. Bond warrant ex yld = exercise yield at current warrant price. Closing prices on September 25.

Bernard Tapie to remould empire

By George Graham in Paris

BERNARD TAPIE, France's most instantly recognisable businessman, is abandoning his speciality of taking over and rebuilding failed companies and is signing up with some of France's oldest financial names to reorganise his interests.

Mr Tapie, who has often aroused the distrust or even the contempt of the Paris establishment, is setting up a new FFr800m holding company, to be named Bernard Tapie Finances, with profits forecast at FFr120m ($19.8m) this year.

The Tapie empire includes such offshoots as La Vie Claire, a diet foods company (in which Booker, the UK group, holds a 38 per cent stake), Terraillon, the kitchen scales maker, and the producers of Mazda and Wonder batteries.

Some of the shakier Tapie holdings, admittedly, are not to be included in Bernard Tapie Finances, in which Mr Tapie himself will hold 57 per cent.

The rest of the new group will be controlled by a Who's Who of French finance, from Banque Worms and Assurances Générales de France to the Crédit Lyonnais and Frandev, the investment company of Mr Pierre Moussa. While Mr Tapie puts up the group's businesses, they supply FFr300m of cash.

A stock market flotation is planned for next year.

The flamboyant Mr Tapie, who has a real gift for self publicity coupled with an enthusiasm for sponsoring sports such as cycling and football, says he can no longer carry on the trade of picking up and shaking bankrupt companies.

"I am no longer psychologically strong enough for dismembering businesses and cutting into the flesh," he says.

Instead, he plans to turn himself into a "third-generation businessman," focusing on family-owned companies with a succession problem.

The most immediate problem for Mr Tapie is his football team, Olympique de Marseille, which took over as his main sporting interest after the retirement of Mr Bernard Hinault.

Asea reaches agreement with unions on merger

BY KEVIN DONE IN STOCKHOLM

ASEA, the Swedish electrical engineering group, has reached agreement with local trade unions on its planned merger with BBC Brown Boveri of Switzerland, a deal which will create the world's biggest electrical engineering concern.

The Swedish trade unions have no power to block the merger, but the local blue-collar worker unions' continuing opposition could have weighed heavily with Sweden's Social Democratic Government, which has yet to give its approval for the merger.

Mr Percy Barnevik, Asea chief executive, said the company had given a guarantee to the Government that no change would be made in the 50 per cent stake to be held in the new concern by the existing Asea parent company, without permission first being obtained from the state.

The veto right applies to the sale of shares and the issue of new voting shares.

Asea has refused to give in to union demands for representation on the board of the new company on the grounds that it cannot enter into agreements about establishing transnational trade unions.

It has been agreed, however, that the Asea Brown Boveri chief executive will meet representatives of the local Swedish unions at the beginning of 1989 to discuss "the way in which information and participation matters have functioned during the first year of operations."

Asea has guaranteed seats for union representatives of the Swedish part of Asea Brown Boveri on the board of the Asea parent company.

Mr Barnevik said regional head offices for the new concern would be established at the present group locations of Vasteras in Sweden, Baden in Switzerland, and Mannheim in West Germany.

No decision has yet been taken, however, on the important symbolic questions of the site for the planned head office for the corporate management and certain staff units, or of the domicile for the new group.

The Swedish unions are concerned that their influence on the company management will be greatly diminished if, as appears likely, the Asea Brown Boveri headquarters is located outside Sweden.

It is planned that the new concern, which will have sales of SKr 100bn ($15.2bn) and a workforce of 160,000, will be operational with effect from January 1. The deal, which was announced in early August, is the biggest cross-border merger ever made in Europe.

Kongsberg restructuring snags

BY KAREN FOSSLI IN OSLO

THE PROGRESS of dismantling Kongsberg Vaapenfabrikk (KV), Norway's financially troubled industrial group, has run into further problems in the last stage of transferring the defence division to a new company, Norwegian Defence Technology (NDT).

Agreement in principle has been reached for NDT to acquire the physical assests of the old KV defence division, but it has been rejected by the Defence Ministry – which is to oversee the new company – and by the composition board, representing 33 foreign banks which are owed about NKr1.6bn ($240m) by Kongsberg. Their approval is required for the deal to go through.

Mr Jonas Myhre, the lawyer representing the creditors, has recommended that the composition board reject the deal on the grounds that the values put forward in the transaction do not sufficiently reflect the true worth of the assets.

The agreement between KV and NDT allows for outstanding contracts worth some NKr2bn–NKr3bn from the old KV defence division to be taken over by NDT. This transfer, however, hinges on acceptance by the customers, for whom the work is being undertaken. One contract calls for the development of the Penguin missile

The contract could be marred by an impending US ban on dealings with Kongsberg because of earlier violations of Cocom regulations when the group, in partnership with Toshiba, supplied the Soviet Union with technology to introduce undetectable submarines.

Under the proposed financial restructuring, the creditors stand to recover only 35–40 per cent. This figure could slip to as low as 25 per cent, according to Mr Myhre. If the creditors choose to force the company into a bankruptcy, they would stand to lose NKr350m put forward by the Norwegian Government towards a composition solution.

UCB improves by 8% to BFr702m

BY OUR BRUSSELS STAFF

UCB, the Belgian pharmaceuticals, chemicals and films group, has unveiled an 8 per cent increase in sales and a rise in net profits from BFr691m ($18.2m) to BFr702m for the first half of 1987.

Pre-tax profits rose more strongly, from BFr815m to BFr832m, while net turnover was up from BFr15.6bn in the first half of 1986 to BFr16.8bn. UCB attributed the sales increase to the first full contributions from La Cellophane Española, the Spanish producer of cellulose and plastic films. Earlier this year, UCB took full ownership of the Spanish group, which had formerly been a 40 per cent associate.

Turnover in pharmaceuticals, the largest division, was unchanged. However, sales of nootropil, a drug used to treat mental disabilities associated with ageing, continued to progress as the group started to extend its uses to new markets, such as the treatment of dyslexia.

The exceptions were West Germany and Italy, where social security spending cuts have hit demand. The sector's profits slipped because of heavy development costs and market launch spending for zyrtec, a new anti-allergy drug.

Sales and profits in the chemicals division rose slightly while they increased "sharply" in the film sector, which includes La Cellophane Española, said the company.

Groupe Bruxelles Lambert rises 2%

By William Dawkins in Brussels

GROUPE BRUXELLES Lambert, the Belgian financial and industrial holding group run by Mr Albert Frère, has reported a 2 per cent increase in profits for the first half of the year.

Consolidated profits, including contributions from minority interests, rose to BFr5.2bn ($137.5m) for the six months to June, from BFr5.1bn in the same period of 1986. That represents a rise in earnings per share to BFr300 from BFr298 in the first half of last year. Unconsolidated profits climbed from BFr2.4bn to BFr4.2bn during the interim period.

The group said that, although it was hard to predict the full-year outcome because of the "exceptional nature of certain capital gains" and the seasonal nature of its portfolio, annual profits should show an increase over the 1986 consolidated surplus of BFr6.52bn. Barring the unexpected, there should be another increase in the dividend.

GBL and its French partner, UAP, have substantially increased their stake in Royale Belge, the insurance company threatened with an unfriendly takeover earlier this year. GBL and UAP expect to hold 44 per cent of Royale Belge between them by the end of 1987.

This will give the insurance group a stable majority Belgian shareholder base and is in line with GBL's plans to continue developing its three main sectors, financial services, energy and the media.

Euroratings deal with Canadian group

By Our Euromarkets Staff

EURORATINGS, the London-based bond rating agency, has signed an information sharing agreement with Canadian Bond Rating Service, the largest Canadian agency.

The Canadian agency will supply Euroratings with detailed information about Canadian corporate or government borrowers although there will be no change to the way the ratings are analysed.

Euroratings has a similar information sharing agreement with Fitch, the US ratings service which is also a shareholder.

NEW INTERNATIONAL BOND ISSUES

Borrower	Amount m.	Maturity	Av. life years	Coupon %	Price	Book Runner	Offer yield %
US DOLLARS							
Nippon Credit Bank §‡	100	2002	15	1¾	100	Nippon Credit Int.	1.750
Nippon Credit Bank (f)§‡	50	2002	15	1¾	100	Nippon Credit (HK)	1.750
Keppel Corp. §	75	1997	10	(2¾–3)	100	Morgan Grenfell	*
Stanley Electric ¶‡	100	1992	5	3¼	100	Daiwa Europe	3.250
Costain Group ¶‡	50	1992	5	7⅝	99¾	Morgan Grenfell	7.687
Koyo Seiko ¶	60	1992	5	(3½)	100	Nikko Secs (Europe)	*
Taisei Prefab Con. ¶	40	1992	5	(3½)	100	Nicco Secs (Europe)	*
American Tel. & Tel. ‡	100	1990	3	9¼	112¾	UBS (Secs)	4.683
CDC Life Sciences §‡	75	2002	15	5¾	100	CSFB	5.750
American General Corp. ‡	150	1994	7	9	100⅝	CSFB	8.876
Sprint Ltd. (c)†‡	30	1992	5	20bp	100.1	Fuji Int.	–
Ford Motor Credit ‡	200	1990	3	8⅞	101¼	UBS (Secs)	8.882
Hazama-Gumi ¶	50	1992	5	(3¾)	100	Daiwa Europe	*
Asahipen Corp. ¶	30	1992	5	(3½)	100	Nomura Int.	*
Morita Fire Pump Mfg. ¶	25	1992	5	(3½)	100	Yamaichi Int. (Eur.)	*
C. Itoh Fuel Co. ¶	50	1992	5	(3½)	100	Nikko Secs (Europe)	*
Taio Paper Mfg. Co. ¶	70	1992	5	(3½)	100	Yamaichi Int. (Eur)	*
Commercial Credit Co. §‡	100	1994	7	5¾	100	Morgan Stanley	5.750
Bank of China (a)†‡	200	1992	5	1/16	100	Warburg Securities	–
EIB (g)‡	200	2000	13	10⅛	99¼	Shearson Lehman	10.492
Sumitomo Electric Ind. ¶	200	1992	5	(3⅛)	100	Daiwa Europe	*
CANADIAN DOLLARS							
Prudential Funding ‡	120	1992	5	11⅛	101⅜	Pru-Bache Cap. Funding	10.755
Avco Financial ‡	75	1992	5	11⅝	100¾	Wood Gundy	11.420
Olympia & York ‡	100	1992	5	11½	101.35	McLeod Young Weir Int.	11.134
Fed. Business Dev. Bank ⏀‡	50	1991	4	10¼	113½	Dominion Secs.	6.325
AUSTRALIAN DOLLARS							
Deutsche Bk Australia ‡	125	1990	3	12⅝	101½	Deutsche Bk Cap. Mkts.	12.000
ECUs							
EIB ‡	75	1994	7	8⅛	99¾	Caisse des Dépôts	8.173
NEW ZEALAND DOLLARS							
LB Schleswig-Holstein ‡	50	1990	3	17	101½	Hambros Bank	16.329
Toronto-Dominion Bank ‡	60	1989	2	17½	101½	Hambros Bank	16.559
Bank of New Zealand †‡	400	1992	5	(d)	100.1	Morgan Guaranty	–
BHF-Bank Finance ‡	75	1990	2½	17¼	101½	CSFB	16.304
D-MARKS							
Electrowatt Fin. ¶‡	150	1994	7	3¼	100	CSFB-Effectenbank	3.250
Council of Europe (b)†‡	150	1995	8	(b)	100	Trinkaus & Burkhardt	–
Minolta Camera Co. §	200	1997	10	0	100	WestLB	–
SWISS FRANCS							
Hoxan Corp. **¶‡	30	1992	–	1	100	SBC	1.000
Andre Perry Group§‡	25	1995	–	5½	100	Banque Indosuez	5.500
Reg. Dev. Fund Finland **‡	15	1989	–	4⅛	100¼	Crédit Suisse	3.982
Reg. Dev. Fund Finland **‡	15	1990	–	4¼	100	Crédit Suisse	4.250
D'Or Val Mines §	35	1995	–	5⅞	100	Banque Indosuez	5.861
EDF †‡	100	1997	–	(e)	100	SBC	–
San-Ai Oil Co. **§	80	1993	–	(½)	100	Crédit Suisse	*
Nederlandse Gasunie ‡	75	1992	–	4½	100⅛	SBC	4.443
Hydro Quebec ‡	100	1997	–	5⅛	100	Crédit Suisse	5.125
FRENCH FRANCS							
Solvay et Cie ‡	500	1992	5	10½	101⅜	CCF	10.136
LUXEMBOURG FRANCS							
EIB **‡	300	1993	6	7¼	100	BGL	7.250
Sandvic **‡	300	1992	5	7⅜	100	BIL	7.375
STERLING							
Argyll Group §‡	60	2002	15	4½	100	CSFB	4.500
DANISH KRONER							
WestLB Finance ‡	300	1993	6	10½	99¾	Sparekassen SDS	10.558
City of Stockholm ‡	444	1991	4	10⅝	100¾	Svenska H'banken	10.386

* Not yet priced. ‡ Final terms. ¶ With equity warrants. § Convertible. † Floating rate note. ⏀ With gold warrants. ** Private placement. ‖ Currency-linked. (a) Pays 6m Libor flat – unlisted. (b) Pays 6m Libor flat – investors can convert into straight bond in Oct '89, April and Oct. '90 (6¾ non-callable). (c) 20bp over 6m Libor. (d) NZ 90-day bank bill rate less 50bp. (e) 1/16 over 6m Libor. (f) Launched in Asia. (g) Launched in US domestic market. Note: Yields are calculated on AIBD basis.

UK COMPANY NEWS

David Waller looks at the recent transformation of Inchcape

Striving to shake off the colonial image

"A GOOD laddie, but a damned sight over-ambitious" is how James Lyle Mackay's employer described him when in 1874 he threw up his job as a scrivener and left his native Scotland for Calcutta.

The young Mackay's ambitions proved to be justified. In time created the first Lord Inchcape, he built up a vast empire of steamships and trading companies which today take the form of P&O and the eponymous Inchcape Group.

Enter Inchcape's imposing City headquarters and one is immediately reminded of those not so far-off days. Chandeliers hang above marbled corridors and the walls are hung with pictures of exotic places like Sarawak, Assam and Zanzibar.

Up until comparatively recently, the group's stock market image was like this building, quaint and anachronistic. Inchcape seemed to be run like a family fiefdom, inappropriate in the era of companies clinically dedicated to the enhancement of earnings per share.

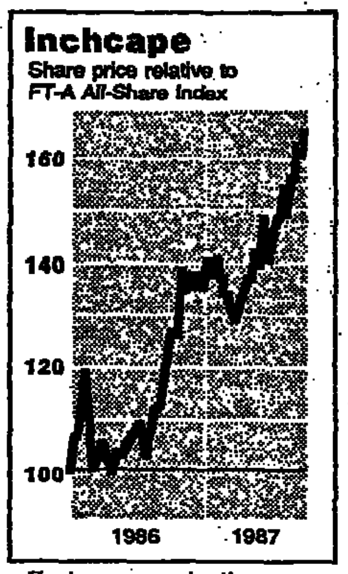
However, in the last year Inchcape has become suddenly fashionable. Its share price has outperformed the market by more than 36 per cent and in April it delivered an 86 per cent rise in pre-tax profits. The imminent sale of the City building will symbolise the end of an era.

Today, its interim profits are widely expected to be up by at least a quarter to over £50m, putting Inchcape on target for £100m in the full year. With a market capitalisation approaching £750m after a strong run ahead of today's figures, bid rumours are signally less rampant than they were eighteen months ago.

The transformation is credited to Mr George Turnbull, Inchcape's chairman since January 1986. "The shareholders' champion", is how one analyst describes the former chairman of Talbot UK.

He has reduced the average age of senior management by a decade or so to 47-48, and has appointed Inchcape's first ever corporate treasurer to manage the group's exposure to 60 currencies. Moreover, he has reduced the group's areas of activity from a sprawling thirty to ten, divided into two tiers.

The top five - motor dealing, insurance, business machines distribution, buying services and inspection and testing - are areas of what the company perceives to be high growth, to be supported by investment and acquisition. The second five - which include tea, timber and shipping services - are strong cash-generative businesses which will be allowed to grow at their own pace.



Having grown in the opportunistic manner appropriate to a colonial enterprise, without much in the way of central control, growth in future is to be constrained within the ten key divisions.

In line with this strategy, Inchcape has made acquisitions worth approximately £100m in the last eighteen months, broadly balanced by disposals. Of the acquisitions, that of insurance broker Clarkson Puckle for £43m last December is the most significant.

George Turnbull - "the shareholders' champion"

In addition to making Bain Clarkson the UK's third largest retail broker, it helped redress the imbalance of UK profits to those generated overseas. This had lumbered Inchcape with a grievous unrelieved ACT problem, and the increase in dividend in April was the first in seven years.

Guinness, the drinks giant, bought Inchcape's Caldbeck subsidiary for £41.5m in June this year. Caldbeck distributed Johnnie Walker whisky in four Asian countries and Hong Kong, and produced pre-tax profits of £4.2m in 1986. Mr Turnbull says that profits foregone will be compensated for by interest savings.

He also argues that to have kept Caldbeck would have been inconsistent with Inchcape's recently defined aim of operating only in markets where it can compete internationally.

The key activity is motor-trading, which accounted for three-fifths of last year's profits. Inchcape holds the Toyota franchise in most European countries, including the UK, and is weathering import quotas by trading up, and has successfully passed on the risks of the appreciating yen to the manufacturer. Interim profits will show the benefit of buoyant UK trading conditions.

After the UK, Inchcape derives the largest part of its profits from the Far East and South-East Asia. Hong Kong's economy is currently thriving, and Singapore is pulling out of the doldrums.

According to Mr Turnbull, the time is now right for the market to regard Inchcape as something other than an overseas trader. "That conjures up images of plantations and commodities - but our exposure to tea and timber is much reduced. We are an international services and marketing organisation."

That said, Inchcape is hardly slim-line, despite the somewhat cosmetic re-labelling of its areas of activity. The last report and accounts show that the company has some 80 subsidiaries and over 20 associates operating in 60 countries.

It acts on behalf of some 5,000 principals, and distributes products as various as Rolls-Royce cars and a type of chicken essence believed by those living in Borneo to have aphrodisiac properties. It still farms 25,000 acres of Assam tea.

For all its realignment, Inchcape has not lost its colonial charm - nor shrugged off the risks associated with a far-flung empire. Although trading conditions have recently conspired to give a good performance across the board, Inchcape will ever be vulnerable to the vagaries of currencies, commodity prices and the economies of developing nations.

The company has identified five global niches. That is the easy part. What the market wants to see now is evidence that Mr Turnbull can manage the growth as well as the rationalisation.

United Guarantee back in the black

WITH THE announcement of a proposed £770,000 cash acquisition, the reconstructed United Guarantee group has issued interim figures showing a return to profits of £224,000, as expected.

Mr Robert Clarke, chairman, said all trading subsidiaries were profitable and current indications showed that continuing. It was intended to resume dividends with a final for 1987.

The group is involved in distribution, services and energy. It is buying Rock Engineering Distributors and Gregory & Sutcliffe, suppliers of engineering cutting tools and related equipment from seven warehouses in the UK.

In 1986 those companies produced sales of £5.4m and a pre-tax loss of £329,000. Mr Clarke said a vigorous marketing and sales policy would be pursued to restore profitability and growth.

Following the rights issue in July, cash and near cash resources totalled around £3m. A number of acquisition and investment opportunities in the UK and US were being evaluated.

The half time profit compared with a loss of £145,000 for the nine months to September 30 1986. Turnover this time came to £4.33m (£4.83m) and earnings were 0.79p (loss 3p) per share.

A. Caird recovery checked

The year to June 30 saw a check to the recovery of A. Caird & Sons, the Dundee based property investment company, with pre-tax profits of £49,000 compared with £176,000 for the previous 17 months period.

The directors said the decline in profitability during the year arose chiefly from trading difficulties and the subsequent liquidation of a major tenant in Scotland, which left the group with a number of non-income producing properties.

Continued rationalisation of the property portfolio, however, has resulted in a strengthing of the balance sheet with year-end cash balances standing at £227,000 and last year's indebtedness of £830,000 now eliminated.

The board believes that recent developments announced in recent months augur well for the future of the group and look to 1988 with confidence.

Tax last year took £11,508 (£13,682) and earnings per 10p ordinary were 0.65p (3.27p).

The dividend is maintained at 0.5p.

Marler Estates profits ahead

Marler Estates, which is the subject of a reverse takeover, has announced its results for the year ended March 25 1987, showing pre-tax profit up from £366,000 to £504,000 and earnings of 5.91p, against a loss of 4.49p.

It was announced a few days ago that Berkley House, a private housebuilder, planned a reverse takeover of Marler. It already had a 28 per cent holding in conjunction with Mr David Thompson, the co-founder of Hillsdown Holdings. Full details were not expected for some weeks.

In 1986-87 Marler achieved turnover of £5.92m (£8.5m), comprising proceeds of property sales £4.33m (£7.58m) and rents receivable £1.59m (£928,000).

Operating income came through at £2.99m, compared with £2.18m, with property trading profit at £1.64m (£1.37m) and net property income £1.35m (£811,000). The dividend is again 4p.

Investment properties were revalued on March 25 at nearly £62m and showed a surplus of £13m. Taking that to account, the net asset value on that date was equal to 558.81p per share, compared with 400.83p.

TV Services cuts loss

Television Services International, W.H.Smith's USM-quoted film and video production subsidiary, reported much reduced interim losses resulting mainly from a cut in overheads and improved trading by its Molinare offshoot.

The results had been helped further by the purchase of Visions in September last year and the substantial elimination of losses in the entertainments division.

On turnover up from a restated £4.45m to £7.34m, pre-tax losses for the first half of 1987 were cut from £1.92m to £67,000. The loss per 50p share was 0.2p (21.1p) and after the passing of last year's final there is still no dividend.

There was a profit at the operating level of £299,000 (£1.61m loss) but there were interest charges of £279,000 (£310,000) and goodwill written-off this time of £67,000.

Smith took a 51 per cent stake as part of a refinancing arrangement in May this year.

PEEL HOLDINGS, the out-of-town retail property developer, has increased its stake in Trafford Park Estates, the Manchester-based property company, to 12.8 per cent. London and Edinburgh Trust has sold its holding, acquired last December.

PENDING DIVIDENDS

Dates when some of the more important company dividend statements may be expected in the next few weeks are given in the following table. The dates shown are those of last year's announcements except when the forthcoming board meetings (indicated thus *) have been officially notified. Dividends to be declared will not necessarily be at the amounts in the column headed "Announcement last year."

	Date	Announcement last year
* Abbey Life	Oct 14	Interim 2.5
Bejam	Oct 15	Final 2.25
* Brent Walker	Oct 9	Interim 3.5
Ferguson Ind	Oct 23	Interim 3.1
* Glaxo	Oct 12	Final 10.0
Hammerson	Oct 22	Interim 2.0
Harris Q'Way	Oct 30	Interim 1.75
* Hawker Siddeley	Oct 21	Interim 5.0
* Inchcape	Sept 28	Interim 7.15
London and Northern	Oct 23	Interim 2.1
Marks and Spencer	Oct 28	Interim 1.4
* Mowlem (J)	Sept 30	Interim 4.5
NEI	Sept 30	Interim 1.65
* Peachey Prop	Sept 29	Final 5.5
* Rugby	Sept 28	Interim 3.1
* Tesco	Sept 30	Interim 2.55
UEI	Oct 14	Interim 2.1
Wolseley	Oct 28	Final 8.0

* Board meeting intimated

Gold Fields funding of Newmont share stakes

By Clay Harris

Consolidated Gold Fields is considering selling assets to help fund its purchase this week of an increased stake in Newmont Mining, the US gold and natural resources group under takeover threat from investors led by Texas oilman Mr T Boone Pickens.

The London-based mining finance house and construction materials group spent $1.55bn (£947m) last Monday and Tuesday to raise its holding in Newmont from 26.1 per cent to 49.7 per cent before being restrained from further purchases by a US court. The average cost of the shares was $98.

Gold Fields put $800m cash into a company set up to make the share purchases, and expects to receive another $295m from the $33 a share special dividend which Newmont declared on Monday as part of its defence against Mr Pickens' Ivanhoe Partners and from the redemption of $800m in preference stock issued to First Boston.

It will initially fund the remaining $455m through increased borrowing. In due course, however, this was likely to be reduced through "redeployment of assets," Gold Fields said.

COMPANY NEWS IN BRIEF

READICUT International, the specialist textile manufacturing company, has bought M.P.Stonehouse for £2.35m, of which £0.5m was satisfied by the issue of 503,525 Readicut ordinary shares and the balance of £1.85m in cash. Stonehouse, based in West Yorkshire, spins worsted and semi-worsted yarns for the carpet, hand knitting, hosiery and needlework industries. It showed a pre-tax profit of £307,000 for the year to February 28.

BRITISH Telecommunications has given notice to the Treasury that it intends to redeem 250m of the cumulative preference shares on December 12. This is the second such tranche to be redeemed since privatisation.

GREYCOAT Group shareholders subscribed for more than 92 per cent of the 10.2m shares available in a £38.25m open offer launched to fund its £42.5m takeover of Moor House, an office block in the City of London.

HIGHAMS, privately-owned textile and property group which has voting control of Manchester Ship Canal, has raised its holding of the ordinary shares from 34.45 per cent to 41.16 per cent.

WHITTINGTON Engineering:- Group turnover for half year ended July 31 1987 was £2.94m (£589,000) and pre-tax profit £81,000 (£19,000) with earnings 1.33p (0.83p). Figures included J.W. Bonser-acquired on June 29- on merger accounting basis and took account of £90,000 loss from bulk material handling systems. Further costs and provisions relating to sale of engineering business of £183,000 charged as extraordinary. Company believed it had base whereby profits growth could be achieved.

FINANCIAL TIMES STOCK INDICES

	Sept. 25	Sept. 24	Sept. 23	Sept. 22	Sept. 21	Sept. 18	1987 High	1987 Low	Since Compilation High	Since Compilation Low
Government Secs.	85.45	85.39	86.38	86.60	86.87	86.45	93.32	84.49	127.4	49.18
Fixed Interest	91.64	91.72	92.11	92.21	92.41	91.96	99.12	90.23	150.4	50.53
Ordinary	1831.6	1811.9	1843.2	1831.8	1837.3	1833.2	1926.1	1320.2	1926.2	49.4
Gold Mines	467.1	456.7	451.7	447.7	438.3	439.2	497.5	288.2	734.7	43.5
FT-Act All Share	1195.42	1181.64	1198.58	1190.52	1190.84	1188.42	1238.57	835.48	1238.57	61.92
FT-SE 100	2342.6	2313.4	2352.4	2336.2	2334.8	2328.3	2443.4	1674.5	2443.4	986.9

UK COMPANY NEWS

Liberty surges ahead to £2.2m at six months

Improvements in management, product and retail selling space are reflected in an upsurge of £1.78m to £2.2m in pre-tax profits of Liberty, retailer, merchant converter and wholesaler, for the half year to August 1.

Margins, trading profit to turnover, have improved from 2.9 to 6 per cent, with rises from £764,000 to £1.81m and from £26.45m to £30.09m respectively.

A breakdown of the trading profit shows the UK with £502,000 compared with a previous loss of £163,000; the Netherlands with a £168,000 loss against an £11,000 profit and US losses down from £107,000 to £84,000. Converting and wholesaling almost doubled from £577,000 to £1.15m; printing amounted to £196,000 (£289,000) while net rent from properties was up from £157,000 to £216,000.

Included in the six month figures were exceptional credits of £517,000 (nil); interest amounted to £127,000 (£347,000), tax to £880,000 (£178,000) and minorities were £17,000 (£27,000).

Earnings before exceptional items were 15.32p (2.83p) and 20.27p (2.83p) after. The interim dividend is raised from 1.8p to 2.6p per 25p share; last year's total payment was 9p.

The directors said that normally the greater part of profits are realised during the second half. The level of group sales since the end of the first half is encouraging and the wholesale order book shows a satisfactory volume growth. They look forward with confidence to reporting an enhanced level of profit this year.

Oilfield Inspection Services losses increase slightly

Oilfield Inspection Services Group, which provides inspection, testing, heat treatment services and associated equipment, incurred slightly heavier taxable losses in the first half of 1987 than it did in the comparable period last year. Losses amounted to £186,000 - £14,000 more than the restated comparison.

Turnover fell from £6.63m to £4.89m. There was a tax credit of £33,000 compared with £540,000 last time and minorities accounted for £12,000 (nil). Last year's extraordinary debit of £150,000, which represented provision for the possible under-recovery of amounts due from the company's Malaysian venture, was not repeated. Losses per 20p share increased from 1.7p to 2.3p. The company has not paid a dividend since a final of 1p for 1985.

However, with the relative stability in world oil prices in recent months, the directors said that they saw encouraging signs of improvement in the company's oil and gas-related markets. They said that it might be some time before this improvement led to significant profits, particularly given the continuing severity of competition in the oil services sector, where there was still substantial over-capacity.

They added that the steps which the company had taken since last year's dramatic events within the oil industry provided a foundation for its second half performance being considerably better than in the second half of 1986.

In Oilfield's main overseas operations - the US, Middle East and Malaysia - turnover fell 37 per cent to £990,000 and it was able to adapt to the fall without incurring additional losses. It had implemented plans for the elimination of losses in Malaysia.

Elsewhere Oilfield was vigorously pursuing its stategy of concentrating on its core business of inspection and related services both in the energy and nuclear reprocessing industries and it was optimistic regarding its prospects in these markets in the foreseeable future. It still intended to dispose of its engineering business.

Newarthill falls to £5.5m halftime

Newarthill, the civil engineering and building contractor which operates under the Sir Robert McAlpine name, reported pre-tax profits sharply lower at £5.46m, compared with £9.03m, in the six months ended April 30, 1987.

However, the directors said that full year results were not expected to differ substantially from the £14.3m achieved in 1985/86.

Providing for tax of £2.87m (£3.62m), and taking in extraordinary profits on sales of securities of £6.92m (£7.75m), the net balance for the half year came out at £6.92m (£7.75m).

Turnover amounted to £160m against £120m.

Higher interest charges hit Wm. Sindall profits

HIGHER interest charges, up from £170,000 to £360,000, have caused a fall in pre-tax profits of **William Sindall**, building contractor and civil engineer, from £195,000 to £175,000 in the half year to June 30.

Turnover, including other operating income, in the period was up from £15.4m to £21.44m and the operating profit rose from £365,000 to £535,000. Tax charged was £13,000 (£12,000) leaving earnings per 25p share of 2.7p (3p) for the 0.6p interim dividend.

Mr Harold Ridgeon, chairman, said that since the end of the half year the company has had some sucess with the disposal of major developments, although interest payments remain high. The continued growth of turnover and operating profit was satisfactory.

Bemrose improvement

BENEFITTING from an advance in security printing profits and continuing excellent performance of Souvenir Pen, the **Bemrose Corporation** lifted its pre-tax profit from £707,000 to £873,000 in the first half of 1987.

Turnover moved ahead from £18m to £20m. The period included a first contribution from the US businesses acquired at the end of 1986.

A strong new management team with a powerful marketing force had been set up in the US. That would be costly in the short term, but the company believed the potential of the US operations was even higher than first envisaged and must be developed.

In summary, the directors said a sound start was made in the first half and profits would have been higher but for the relative weakness of the dollar.

Profits would again be realised predominantly in the second half- that period of 1986 produced £2.8m.

Earnings for the six months came to 3.96p (3.6p) and the interim dividend is 3.5p (3p).

BOARD MEETINGS

The following companies have notified dates of board meetings to the Stock Exchange. Such meetings are usually held for the purpose of considering dividends. Official indications are not available as to whether the dividends are interims or finals and the sub-divisions shown below are based mainly on last year's timetables.

TODAY

Interims- Bowthorpe, Godfrey Davis, Earlys of Witney, Estates and General Investments, Equity and General, Freemans, Hornby, Inchcape, Meggitt, John Menzies, Metalrax, Monotype, John Mowlem, Rugby, Scott and Robertson, Steetley, Tootal, Watts Blake Bearne, World of Leather.

Finals- FII Group, Honeysuckle, MAI, Parker Knoll Peachey Property, Space Planning Services, Trafford Park Estates, Wentworth International.

FUTURE DATES

Interims-

AmBrit International	Sept 29
Corporate Estates Prop	Sept 29
Fortnum and Mason	Oct 5
Foward Group	Oct 5
Gee (Cecil)	Oct 13
Johnston Group	Oct 7
Martin (Albert)	Oct 6
Ruberoid	Oct 8
Shandwick	Sept 29

Finals-

Clogau Gold Mines	Oct 2
Highland Distilleries	Oct 19
Regina Health and Beauty Products	Oct 1
Sinclair Goldsmith	Sept 29

Dividends resumed at Baldwin

Baldwin, investment, property and concrete making group, lifted its turnover from £2.51m to £3.2m and pre-tax profit from £84,000 to £247,000 in the year ended April 30 1987.

Dividends are resumed with a 1.25p payment. Earnings were 4p (0.92p). Results of Beever Concrete and Vendlodge were included for some 3½ months.

In May nearly two-thirds of the company's capital changed hands. The directors said they have reviewed the operations and intended to expand those and diversify. A number of opportunities were being considered.

Ferry Pickering up to £2.25m

Ferry Pickering Group, engaged in printing, packaging and publishing, raised its pre-tax profits from £2.09m to £2.25m on turnover up from £13.81m to £15m for the year to June 30 1987.

A final dividend of 2.4p (2.1p) is recommended making 4p (3.5p) for the year. Earnings per share rose to 12.55p (10.79p). Tax came to £741,000 (£802,000), minorities £7,000 (£6,000) and there was an extraordinary credit of £222,000 (nil).

F.T. Share Information

The following securities have been added to the Share Information Service:

Nationwide Anglia 10 per cent Bds. 1/8/88 and 10½ per cent Bds. 22/8/88 (Section: Loans-Building Societies).

WORLD MARKETS

FT-ACTUARIES WORLD INDICES

Jointly compiled by the Financial Times, Goldman, Sachs & Co., and Wood Mackenzie & Co. Ltd., in conjunction with the Institute of Actuaries and the Faculty of Actuaries

NATIONAL AND REGIONAL MARKETS — Figures in parentheses show number of stocks per grouping	FRIDAY SEPTEMBER 25 1987 US Dollar Index	Day's Change %	Pound Sterling Index	Local Currency Index	Gross Div. Yield	THURSDAY SEPTEMBER 24 1987 US Dollar Index	Pound Sterling Index	Local Currency Index	DOLLAR INDEX 1987 High	1987 Low	Year ago (approx)
Australia (93)	175.32	−0.9	158.25	161.03	2.44	176.83	160.11	161.02	180.81	99.92	82.98
Austria (16)	100.75	−0.8	90.94	95.39	2.17	101.51	91.90	96.02	102.87	85.53	93.33
Belgium (48)	127.84	−0.4	115.39	119.80	3.96	128.38	116.23	120.15	134.89	96.19	88.99
Canada (129)	136.83	+0.3	123.50	129.99	2.30	136.35	123.45	130.03	141.78	100.00	96.92
Denmark (39)	116.66	−0.6	105.30	111.11	2.56	117.32	106.22	111.70	124.83	98.18	96.36
France (121)	111.74	−0.7	100.86	106.40	2.65	112.50	101.86	107.16	121.82	98.39	94.07
West Germany (92)	100.60	−0.2	90.80	95.21	1.99	100.84	91.30	95.46	104.93	84.00	91.62
Hong Kong (45)	153.08	+1.9	138.17	153.40	2.37	150.29	136.07	150.57	153.08	96.89	80.84
Ireland (14)	145.97	+0.8	131.75	139.82	3.21	144.86	131.15	138.76	145.97	99.50	82.60
Italy (76)	91.53	+1.5	82.62	89.82	2.04	90.19	81.65	88.54	112.11	84.22	97.86
Japan (458)	143.58	+1.3	129.60	130.37	0.53	141.75	128.34	128.76	161.28	100.00	98.99
Malaysia (36)	173.70	+0.7	156.79	168.71	2.18	172.53	156.21	167.42	193.64	98.24	89.68
Mexico (14)	379.89	−0.4	342.90	646.08	0.46	381.23	345.17	645.86	422.59	99.72	67.21
Netherland (37)	123.44	+0.2	111.43	115.44	3.89	123.17	111.52	115.19	131.41	99.65	95.32
New Zealand (24)	133.54	−1.1	120.54	110.25	2.71	135.00	122.23	111.22	138.99	83.93	72.85
Norway (24)	179.10	+0.6	161.67	161.97	1.69	177.95	161.11	160.98	185.01	100.00	103.02
Singapore (27)	162.00	+0.6	146.22	156.10	1.57	161.00	145.77	155.14	174.28	99.29	89.92
South Africa (61)	186.84	+0.9	168.64	135.04	3.10	185.19	167.67	133.85	198.09	100.00	104.18
Spain (43)	160.38	−0.4	144.77	147.63	2.68	160.97	145.74	148.10	165.92	100.00	94.11
Sweden (33)	130.29	−0.1	117.61	123.25	1.88	130.48	118.14	123.48	132.10	90.85	95.61
Switzerland (53)	108.13	−0.1	97.60	101.29	1.64	108.21	97.97	101.37	110.00	92.01	89.79
United Kingdom (333)	157.69	+1.5	142.34	142.34	3.16	155.29	140.60	140.60	162.87	99.65	90.51
USA (586)	130.69	+0.1	117.96	130.69	2.81	130.54	118.19	130.54	137.42	100.00	96.66
Europe (929)	128.12	+0.7	115.65	118.81	2.79	127.22	115.18	118.15	128.88	99.78	92.31
Pacific Basin (683)	145.01	+1.2	130.89	132.04	0.68	143.31	129.75	130.48	158.77	100.00	97.72
Euro–Pacific (1612)	138.31	+1.0	124.84	126.74	1.46	136.93	123.97	125.54	143.65	100.00	95.58
North America (715)	131.01	+0.1	118.26	130.67	2.78	130.85	118.47	130.54	137.55	100.00	96.66
Europe Ex. UK (596)	109.75	+0.0	99.06	104.10	2.45	109.78	99.39	104.15	111.97	98.02	93.43
Pacific Ex. Japan (225)	162.73	+0.1	146.89	152.99	2.39	162.62	147.24	152.13	163.57	99.92	81.79
World Ex. US (1816)	138.93	+1.0	125.41	127.26	1.51	137.58	124.57	126.09	143.38	100.00	95.68
World Ex. UK (2069)	133.55	+0.6	120.54	127.34	1.86	132.81	120.25	126.65	138.82	100.00	96.58
World Ex. So. Af. (2341)	135.36	+0.7	122.18	128.65	1.99	134.48	121.76	127.86	139.47	100.00	95.99
World Ex. Japan (1944)	131.95	+0.3	119.10	127.94	2.77	131.52	119.08	127.57	134.03	100.00	94.61
The World Index (2402)	135.69	+0.7	122.48	128.73	2.00	134.81	122.06	127.94	139.73	100.00	96.04

Base values: Dec 31, 1986 = 100

EUROPEAN OPTIONS EXCHANGE

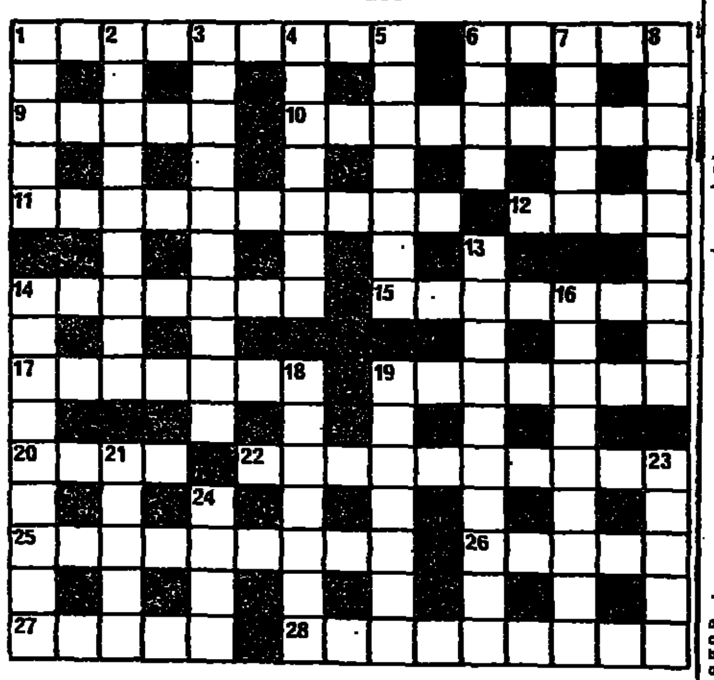
Series		Nov 87 Vol.	Last	Feb 88 Vol.	Last	May 88 Vol.	Last	Stock
GOLD C	$480	27	8	8	29.50	—	—	$462.20
GOLD C	$500	199	4	2	13.50	51	21.50	
GOLD P	$420	2	1.90	—	—	—	—	
GOLD P	$440	42	4	104	6.80	—	—	
GOLD P	$460	5	9.20	—	—	—	—	
		Oct. 87		Nov. 87		Dec. 87		
$/FL C	FL200	31	5	80	5.40	—	—	FL204.90
$/FL C	FL205	25	1.80A	145	2.80	2	3.60	
$/FL C	FL210	—	—	30	1.10	2	1.80	
$/FL P	FL195	—	—	—	—	30	1.30	
$/FL P	FL200	—	—	2	1.50	20	2.80	
$/FL P	FL205	15	2.10B	20	3.90	20	4.30	
$/FL P	FL215	—	—	—	—	100	11.50	
		Mar. 88		June 88		Sept. 88		
$/FL C	FL190	200	14.80	—	—	—	—	FL204.90
$/FL C	FL200	—	—	10	7.60B	—	—	
$/FL C	FL205	12	5	12	5.50	—	—	
$/FL C	FL215	—	—	5	2.75	—	—	
$/FL P	FL220	—	—	2	1.80	—	—	
$/FL P	FL210	1	9.80	—	—	—	—	
		Oct. 87		Jan. 88		Apr. 88		
ABN C	FL52	425	0.10	48	1.40	2	2.40	FL46.60
ABN P	FL46	97	0.60A	227	1.90	4	2.10	
AEGON C	FL90	14	1.10	420	4.70	—	—	FL86.40
AEGON P	FL90	30	4.70	440	6.40	—	—	
AHOLD C	FL110	4	0.60	30	3.70	—	—	FL104.40
AHOLD P	FL105	32	3	1	5.20	—	—	
AHOLD P	FL95.50	—	—	3	11.50	—	—	
AKZO C	FL190	224	1	657	6.80	37	10	FL176.90
AKZO P	FL180	20	0.40	533	3.10	14	16	
AMEV C	FL70	15	0.10	101	1.40	—	—	FL59.80
AMEV P	FL60	8	2	2	3.20	—	—	
AMRO C	FL85	153	1.30	95	4.40	7	6	FL83
AMRO P	FL80	79	7.50	28	8	—	—	
ELSEVIER C	FL65	274	1.30	139	4.50	19	5.70	FL61.50
ELSEVIER P	FL60	167	1	36	3.50	20	5	
GIST-BROC C	FL50	72	0.50	75	3	34	3.70	FL47.80
GIST-BROC P	FL50	10	2.40	2	3	31	3	
HEINEKEN C	FL190	10	1.20	53	4.70	12	8.50	FL174.80
HEINEKEN P	FL190	10	15	1	18	—	—	
HOOGOVENS C	FL55	18	0.50	82	3	23	5	FL47.20
HOOGOVENS P	FL55	142	8.50	—	—	—	—	
KLM C	FL55	413	2.80	96	5.60	5	7.50	FL52.50
KLM P	FL55	15	3.40A	5	5	5	5.20	
NEDLLOYD C	FL300	65	3.10	37	12	—	—	FL250.90
NEDLLOYD P	FL270	106	1.20	47	4.50	—	—	
NAT NED C	FL75	55	1.90	141	3.60	12	5.50	FL72
NAT NED P	FL75	263	3.40	65	4.50	—	—	
PHILIPS C	FL55	148	0.40	387	1.90	140	2.80	FL50.60
PHILIPS P	FL55	80	4.60	30	5.70	314	6.40	
ROYAL DUTCH C	FL270	299	2.40	227	6.40	1	15	FL261.50
ROYAL DUTCH P	FL260	325	4.30	126	9	6	11.50	
UNILEVER C	FL144	249	1.50	101	6.80	—	—	FL137.50
UNILEVER P	FL130	—	—	90	1.20	10	3	

TOTAL VOLUME IN CONTRACTS: 30,919

A=Ask B=Bid C=Call P=Put

FT CROSSWORD PUZZLE No. 6,441

PROTEUS



ACROSS

1 Meant originally to have some in flat (9)
6 Emblem of evil for example being overthrown (5)
9 Article spreading lies about part of church (5)
10 See servant about crime in clergy-house (9)
11 Explorer finding record concerning royalty (10)
12 Mineral stored in metal container (4)
14 Right about settlers' petitions (7)
15 "Clubfoot" stories about one leading protagonist (7)
17 Picks up gun belonging to lady (7)
19 Eccentric pal prizing highly-decorated ceiling (7)
20 Change course through stitch (4)
22 Beginning of quarrel over region's gas (10)
25 Stand for soldier in attendance (9)
26 One vehicle taken over separately (5)
27 Animal from oriental country (5)
28 Insipid heroine least troubled inwardly (9)

DOWN

1 Some overdraw account to pick up prize (5)
2 Fool is model worker and helper (9)
3 Celtic folk renowned as pace-setters? (3, 7)
4 Paper intended for a particular purpose (7)
5 Anguish felt by people in the wrong (7)
6 The sound of a rising economy (4)
7 Drink taken by leading actor in play (5)
8 Used to be troubled (9)
13 What overworked char does to get fresh start? (3, 5)
14 Where some beauties are seen with half a leaf over figure (4, 5)
16 Steer archbishop round next . . . (9)
18 . . . section, putting US investigators in place (7)
19 Did their sea-trip turn out profitable? (7)
21 Girl keeping quiet about source of coconut oil (5)
23 Memoranda about direction to school (5)
24 Minister in some forgotten department (4)

The solution to last Saturday's prize puzzle will be published with names of winners next Saturday.

BASE LENDING RATES

	%		%		%
ABN Bank	10	● Charterhouse Bank	10	Nat Bk. of Kuwait	10
Adam & Company	10	Citibank NA	10	NatWestminster	10
Allied Arab Bk Ltd	10	City Merchants Bank	10	Northern Bank Ltd	10
Allied Dunbar & Co	10	Clydesdale Bank	10	Norwich Gen. Trust	10
Allied Irish Bank	10	Comm. Bk. N. East	10	PK Finans. Intl (UK)	10½
American Exp. Bk	10	Consolidated Credits	10	Provincial Trust Ltd	10
Amro Bank	10	Co-operative Bank	*10	R. Raphael & Sons	10
Henry Ansbacher	10	Cyprus Popular Bk	10	Roxburghe Guarantee	10½
ANZ Banking Group	10	Duncan Lawrie	10	Royal Bk of Scotland	10
Associates Cap Corp	10	Equatorial Tst plc	10	Royal Trust Bank	10
Authority Bk & Co Ltd	10	Exeter Trust Ltd	10½	Smith & Williams Secs	10
Banco de Bilbao	10	Financial & Gen. Sec.	10	Standard Chartered	10
Bank Hapoalim	10	First Nat. Fin. Corp	10	TSB	10
Bank Leumi (UK)	10	First Nat. Sec. Ltd	10	UDT Mortgage Exp.	¶11.1
Bank Credit & Commerce	10	● Robert Fleming & Co	10	United Bk of Kuwait	10
Bank of Cyprus	10	Robert Fraser & Ptrs	11	United Mizrahi Bank	10
Bank of Ireland	10	Grindlays Bank	10	Unity Trust PLC	10
Bank of India	10	● Guinness Mahon	10	Western Trust	10
Bank of Scotland	10	HFC Trust & Savings	10	Westpac Bank Corp	10
Banque Belge Ltd	10	● Hambros Bank	10	Whiteaway Laidlaw	10½
Barclays Bank	10			Yorkshire Bank	10
Benchmark Tst Ltd	10	Heritable & Gen. Tst.	10		
Beneficial Trust Ltd	11	● Hill Samuel	§10		
Berliner Bank AG	10	C. Hoare & Co.	10		
Brit Bk of Mid East	10	Hongkong & Shangh	10		
● Brown Shipley	10	Lloyds Bank	10		
Business Mtge Tst	10	Meghraj & Sons Ltd	10		
CL Bank Nederland	10	Midland Bank	10		
Canada Permanent	10	● Morgan Grenfell	10		
Cayzer Ltd	10	Mount Credit Corp. Ltd	10		

● Members of the Accepting Houses Committee. ★ 7-day deposits 5%. Sunrise 7.66%. Top Tier—£2,500+ at 3 months' notice 9.31%. At call when £10,000+ remains deposited. ¶ Mortgage base rate. § Demand deposit 4.98%. Mortgage 11.125%.

LONDON RECENT ISSUES

FIXED INTEREST STOCKS

Issue Price £	Amount Paid up	Latest Renunc. Date	1987 High	1987 Low	Stock	Closing Price £	+ or −
100	F.P.	—	108p	105p	A&B Research 6.21 Cm. Prf.	107p	−1
100p	F.P.	—	102p	97p	Chesterfield Props 5¼pc Cr. Cm. Prf.	101p	−½
¶¶	F.P.	—	145p	130p	Merlin Intl. Cum. Red. Cnv. Prf.	133p	−1
—	F.P.	—	100⅛	99⅞	N'wide Anglia 10⅞ pc. 12.9.88	100⅛	−⅛
—	F.P.	—	100⅛	99⅞	Do. 10⅝ pc.26.9.88	99⅞	−⅛
‖	Nil	—	9⅞pm	6⅛pm	Next 5⅞% Cnv. 2003	8pm	−1½
—	£25	11/11	25½	12¾	North Housing Assoc. 8¾% Gtd.ln.2037	15¼	−1¾
—	F.P.	—	270p	200p	Do. Zero Corp. Ln. 2027	220p	−25
100p	F.P.	—	113p	111p	‡Randsworth Tst. 7% Cum. Cnv. Red. Prf.	111p	+1

EQUITIES

Issue Price	Amount Paid up	Latest Renunc. Date	1987 High	1987 Low	Stock	Closing Price	+ or −	Net. Div.	Times Cov'd	Gross Yield	P.E. Ratio
§110	F.P.	18/9	121	98	Adscene	108	−2	L2.5	1.9	3.2	22.8
221	F.P.	—	260	221	Alexander (W)	260	+5	4.25	2.9	2.2	21.3
††	F.P.	—	84	65	BHP Gold Mines A$0.25	79	......	—	—	—	—
80	F.P.	—	108	85	*ChemEx. Intl.	8	+1	—	—	—	—
§50	F.P.	9/9	101	58	‡Corp. Estates Prop.5p	101	+13	L0.75	2.4	1.0	55.1
§106	F.P.	—	158	135	‡Dolphin Pack 5p	152	−6	L2.0	3.5	1.8	21.6
10	F.P.	11/12	12¾	10	EFM Dragon Trust 5p.	12½	−¼	—	—	—	—
100	F.P.	29.9	114	103	First Spanish Inv.Units	111	......	—	—	—	—
100	F.P.	—	107	99	G.T. Venture 50p.●	99	......	—	—	—	—
‖‖	F.P.	—	135	92	‡Guildehouse Grp. 1p.	135	+5	—	—	—	51.9
‖‖	F.P.	—	110	70	Do. Warrants	110	+5	—	—	—	—
121	F.P.	—	154	78	Kerson	135	−3	—	—	—	—
§100	F.P.	—	145	108	Kingston Oil & Gas 50p	115	......	—	—	—	—
100†	F.P.	—	170	115	*Medirace 10p	170	+2	—	—	—	—
—	F.P.	—	98	55	Moorgate Inv. Warr.	87	......	—	—	—	—
§110	F.P.	4/8	281	185	‡Parkway 5p.	248	......	R1.5	4.2	0.8	39.1
§10.58	F.P.	—	$21¼	$15	Portugal Fund $0.01	$19¾	......	—	—	—	—
¶¶	F.P.	—	128	105	*Seacon Holdings	118	......	—	—	—	17.9
—	F.P.	26/10	118	101	Singer & Fr'dlander 10p	111	+6	—	—	—	—
‖‖	F.P.	—	166	143	Zetters Leisure 10p.	154	−6	L1.5	3.7	1.3	27.9

"RIGHTS" OFFERS

Issue Price	Amount Paid up	Latest Renunc. Date	1987 High	1987 Low	Stock	Closing Price p	+ or −
350	Nil	—	131pm	108pm	AB Elect	131pm	+12
30	Nil	6/11	103pm	88pm	Antal. Fin. Inv.	94pm	+1
8	Nil	30/10	14pm	8pm	BOM Holdings	13pm	+4
166	Nil	28/9	3pm	¼pm	Blue Arrow 5p	¼pm	......
470	Nil	13/11	45pm	32pm	Bowater	33pm	−1
475	Nil	30/10	80pm	49pm	Brit. Vita	74pm	−2
650	Nil	28/9	103pm	88pm	‡Brookmount	103pm	+5
¶¶	Nil	—	18pm	10pm	CDFC Units	13pm	......
90	Nil	—	6½pm	4pm	Christy Hunt 1p	6pm	+½
761	Nil	—	115pm	108pm	Collins (W.)	109pm	+1
637	Nil	—	75pm	44pm	Do A N/V	44pm	−5
257	Nil	30/9	57pm	35pm	‡Dewey Warren 10p	49pm	+8
335	Nil	30/10	101pm	87pm	Greenwich Res.	93pm	−4
48	Nil	26/10	32pm	19pm	Helene of London 10p	31pm	+5
45	Nil	—	13pm	9pm	Inoco	12pm	+2
400	Nil	—	65pm	41pm	Macarthy 20p	41pm	−2
425	Nil	—	195pm	125pm	‡Miller & Santhouse 5p.	195pm	+4
50	Nil	28/10	88pm	78pm	‡Perkins (J.) Meats	78pm	−3
2½	Nil	—	6pm	3¼pm	Property Trust 1p	4½pm	+¼
83	Nil	28/10	24½pm	19½pm	Queens Moat	23pm	−¼
425	Nil	—	21pm	6pm	Tyndall Hldgs	11pm	−2

Renunciation date usually last day for dealing free of stamp duty. a Annualised dividend. b Figures based on prospectus estimates. d Dividend rate paid or payable on part of capital, cover based on dividend on full capital. g Assumed dividend and yield. h Assumed dividend and yield after scrip issue. F Dividend and yield based on prospectus or other official estimates for 1986/7. H Dividend and Yield based on prospectus or other official estimates for 1987. L Estimated annualised dividend, cover and p/e based on latest annual earnings. q Earnings based on preliminary figures. R Forecast annualised dividend, cover and p/e ratio based on prospectus or other official estimates. W Pro Forma Figures ŧ Indicated dividends; cover relates to previous dividend; p/e ratio based on latest annual earnings. u Forecast, or estimated annualised dividend rate, cover based on previous year's earnings. ¶ Issued by tender. ‖ Offered holders of ordinary shares as a "rights." ‖‖ Introduction. ** Issued by way of capitalisation. § Placing price. §§ Reintroduced. ¶¶ Issued in connection with reorganisation merger or takeover. ▪ Allotment price. ‡ Unlisted securities market. †† Official London listing. ‡‡ Including warrants entitlement. ‡ Placing and offer for sale price. * Third Market. †Issued in £2 Units comprising 2 Ord Shares & 1 Warrant. (Exercisable at 50p into 1 Ord.) ●With warrants

FT UNIT TRUST INFORMATION SERVICE

AUTHORISED UNIT TRUSTS

FT UNIT TRUST INFORMATION SERVICE

INSURANCES

Continued on next page

FT UNIT TRUST INFORMATION SERVICE

Manufacturers Life Insurance—Contd.

Gilt-Edged Int.	226.5			—
Do. Accum	279.2			—
Guaranteed Int	159.0			—
Do. Accum.	195.9			—
International Int.	499.6			—
Do. Accum	615.2			—
Index Lk Gilt Int.	135.7			—
Do. Accum.	167.2			—

Merchant Investors Assurance
Leon House, 233 High St, Croydon 01-686 9171

Property	316.6	+1.0	—
Property Pens.	426.6	+1.8	—
Equity	202.0	-7.1	—
Equity Pens.	419.7	-14.6	—
Money Market	295.6	-4.4	—
Money Mkt. Pens.	532.7	-8.0	—
Deposit	259.7	+0.2	—
Deposit Pens	384.1	+0.6	—
Managed	302.4	-1.8	—
Managed Pens.	587.1	-5.4	—
Intl. Equity	362.2	-0.2	—
Do. Pens.	592.4	-0.6	—
Intl. Managed	330.3	-0.9	—
Do. Pens.	495.0	-2.2	—
North American	134.7	+0.4	—
Do. Pens.	155.6	+0.6	—
Far East	300.2	+2.1	—
Do. Pens.	445.6	+4.4	—
Intnl. Currency	169.1	+0.2	—
Do. Pens.	218.2	+0.5	—
Index Linked	126.3	-2.4	—
S & C Managed Fd	141.6	+0.7	—
S & C Pens Mngd Fd	115.9	+0.7	—
Bell Chambers	129.0	-0.2	—
Loran & Loran	118.3	+0.1	—
Trustlink Life Funds			
Per Worldwide Rec.	172.4	-0.2	—
Per Far East Growth	224.0	-0.2	—
Per Intl Growth	167.0	+0.6	—
Per Income	179.1	-0.6	—
Per Emerging Co's	166.6	+0.2	—
Per American Growth	150.2	+0.5	—

Norwich Union Asset Management Ltd
PO Box 124, Norwich NR1 2JS 0603 683986

NUAM Funds				
Managed Fund	58.0	61.1	+0.1	—
Stock Market Mngd Fund	60.0	63.2	-0.1	—
Equity Fund	64.8	68.3	+0.3	—
International Fund	56.4	59.4	-0.1	—
European Fund	59.9	63.1	+0.2	—
North American Fund	51.3	54.0	+0.8	—
Pacific Fund	65.2	68.7	—	—
Property Fund	52.2	55.0	—	—
Fixed Interest Funds	47.9	50.5		—
Index linked Sec Fund	45.1	47.5	-0.2	—
Deposit Fund	51.5	54.3		—
NUAM Retirement Plans				
Mixed Fund	62.3	65.6	-0.5	—
UK Ordinary Share	74.8	78.8	-1.1	—
International Fund	58.1	61.2	+0.3	—
Property Fund	52.3	55.1		—
Fixed Interest Fund	49.6	52.3	-0.8	—
Index Linked Sec Fund	45.6	48.0	-0.4	—
Deposit Fund	53.5	56.4		—
NUAM (NF)				
Managed Fund	797.7	839.7	-4.2	—
Equity Fund	1734.1	1825.4		—
Property Fund	325.0	342.2		—
Fixed Interest Fund	353.0	371.6		—
Deposit Fund	210.5	221.6		—
International Fund	146.4	154.2	+0.8	—
Index Linked Sec Fund	45.1	47.5	-0.2	—

Norwich Union Life Insurance Soc.
PO Box 4, Norwich NR1 3NG 0603 622200

Pensinvestor* & Bob-Linked Plus*				
Fixed Interest Fund	253.1	266.4		—
Index-Linked Sec Fund	130.1	136.9		—
Ordinary Share Fund	547.0	575.7		—
International Fund	147.1	154.8		—
Property Fund	162.9	171.4		—
Deposit Fund	167.6	176.4		—
Mixed Fund	347.4	365.6		—
Norwich Units Sep 15		1018.4		—

*Prices as at June 30.

[illegible]

MANAGEMENT SERVICES

[illegible]

OFFSHORE AND OVERSEAS

[illegible]

FT UNIT TRUST INFORMATION SERVICE

LONDON SHARE SERVICE

BRITISH FUNDS

Interest Due	Stock	Price £	Last xd	Yield Int.	Yield Red.
"Shorts" (Lives up to Five Years)					
3May 3Nov	Treas. 12pc 1987	100¾	27.3	11.99	9.89
26 Jul 26 Jan	Treas 7¾pc 1985-88‡‡	99¼	19.6	7.80	9.58
10Nov 10May	Exch 10½pc '88	100¼	3.4	10.49	10.30
14Dec 14Jun	Treas 9¾pc Cv '88	99	8.5	9.79	10.27
1Jan 1Jul	Transport 3pc '78-88	96	26.5	3.11	7.64
25 Apr 25 Oct	Treas. 9½pc '88	99¼xd	19.3	9.57	10.25
22 Aug 22 Feb	Treas 11½pc 1989	101	24.7	11.33	10.28
18 Oct 18 Apr	Treas 9½pc Cnv 1989	99¼xd	11.9	9.59	10.19
15Nov 15May	Treas 3pc 1989	93	3.4	3.22	7.51
14Dec 14Jun	Treas 10½pc 1989	100¼	8.5	10.47	10.26
1Feb 1Aug	Exch.10pc 1989	99	25.6	10.04	10.23
29 Mar 29 Sep	Exch 11pc 1989	101¼xd	24.8	10.86	10.26
15 Apr 15 Oct	Treas 5pc 1986-89	93xd	8.9	5.37	8.72
15 May 15 Nov	Exch 10¼pcCv '89	100	8.4	10.19	9.873
15 Jul 15 Jan	Treas 13pc 1990‡‡	105	8.6	12.30	10.11
12 Aug 12 Feb	Exch 11pc 1990‡‡	101	16.7	10.53	10.20
22 Sep 22 Mar	Exch. 12¼pc 1990	104xd	17.8	11.92	10.23
8 Nov 8 May	Treas. 3pc 1990	88	1.4	3.39	7.96
15 Dec 15 Jun	Treas 8¼pc 1987-90‡‡	95	11.5	8.62	10.06
25 Apr 25 Oct	Treas. 10pcCv 1990	99xd	19.3	10.06	10.23
22 May 22 Nov	Exch 2½pc 1990	85	15.4	2.91	7.59
10 July 10 Jan	Treas 11¼pc 1991	103	3.6	11.31	10.27
5Oct 5Apr	Funding 5¾pc '87-91‡‡	89xd	1.9	6.42	9.27
13 Nov 13 May	Treas. 3pc 1991	84	6.4	3.55	7.96
12Jan 12July	Treas 10pc Cv '91 ‡‡	100	5.6	9.97	9.89
25Apr 25Oct	Exch. 11pc 1991	102xd	19.3	10.13	10.22
—	Treas. 8pc 1991	92	—		
22Jly 22Jan	Treas 12¾pc 1992‡‡	108	15.6	11.76	10.25
21Aug 21Feb	Treas 10pc 1992	99	15.7	10.09	10.23
13Oct 13Apr	Treas. 8pc 1992‡‡	92	—	8.70	10.25
7 Nov 7 May	Treas 10½pc Cv 1992‡‡	100	31.3	10.42	10.26
—	Treas. 3pc 1992	79	—	3.74	8.03
25 Feb 25 Aug	Exch. 12¼pc '92	107	20.7	11.43	10.32
22Mar 22Sep	Exch 13½pc 1992	111	17.8	12.06	10.37
Five to Fifteen Years					
15Oct 15Apr	Treas 10pc 1993‡‡	98xd	8.9	10.12	10.18

Over Fifteen Years

Undated

BRITISH FUNDS—Contd

Index-Linked

Interest Due	Stock	(b)	Price £	Last xd	(1)	(2)
30 Sep 30 Mar	Treas. 2pc '88	(297.1)	133½xd	24.8	—	2.01
25 Jul 25 Jan	Do. 2pc '90	(333.9)	114	18.6	2.95	3.09
23Sep 23Mar	Do. 2pc '92‡‡	(385.8)	95	17.8		3.30
16Mar 16Sep	Do. 2pc '96	(267.9)	123xd	10.6	3.96	4.03
24Mar 24Sep	Do 2½pc '01	(308.8)	102xd	18.8	4.24	4.33
20Nov 20May	Do. 2½pc '03	(310.7)	105	13.4	4.19	4.30
19Jan 19Jly	Do. 2pc '06	(274.1)	103	12.6	4.13	4.22
20Nov 20May	Do. 2½pc '09	(310.7)	96	13.4	4.06	4.15
23Feb 23Aug	Do. 2½pc '11	(294.1)	100	17.7	4.01	4.10
16Feb 16Aug	Do. 2½pc '13	(351.9)	85	13.7	3.99	4.05
26Jan 26Jly	Do. 2½pc '16	(322.0)	90	19.6	3.90	3.98
16Oct 16Apr	Do. 2½pc '20	(327.3)	89xd	10.3	3.84	3.90
17Jan 17July	Do. 2½pc '24 ‡‡	(385.3)	75	10.6	3.75	3.81

Prospective real redemption rate on projected inflation of (1) 10% and (2) 5%. (b) Figures in parentheses show RPI base month for indexing, ie 8 months prior to issue. RPI for January 1987: 100.0 and for August 1987: 102.1 (rebased at 100 January 1987 conversion factor 3.945).

INT. BANK AND O'SEAS GOVT STERLING ISSUES

Interest Due	Stock	Price £	Last xd	Yield Int.	Yield Red.
4 Jan 4 Jul	African Dv Bk 11½Ln 2010	100½xd	4.6	11.11	11.10
24Mar 24Sep	Asian Dev Bk 10¼pcLn2009	95	29.2	10.70	10.75
28Jan 28Jly	Australia 13½pc 2010	120	29.6	11.19	11.00
26Apr 26Oct	Do. 11¾pcLn2015	105	27.3	10.98	10.95
23Mar 23Sep	Euro Inv Bk 11pc Ln 2002	102	23.2	10.72	10.64
22Mar 22Nov	Do. 10½pc2004	97	22.4	10.63	10.66

CORPORATION LOANS

COMMONWEALTH & AFRICAN LOANS

LOANS

Building Societies

Public Board and Ind.

Financial

FOREIGN BONDS & RAILS

AMERICANS

Continued on next page

Money Market Bank Accounts

Money Market Trust Funds

UNIT TRUST NOTES

LONDON SHARE SERVICE

AMERICANS—Continued

Dividends Paid	Stock	Price £	Last xd	Div Gross	C'vr	Y'ld Gr's
Mr Je Sp Dc	Tenneco $5	34¼	11.8	$3.04	—	5.4
June Dec	Do 10pcLn.Stk. 91-5	215	13.00	10%	—	14.7
Mr Je Se De	Texaco $6.25	24⅛	31.7	$3.00	—	7.4
Mr Ju Se De	Time Inc. $1	64	22.8	$1.00	—	1.0
Ja Ap Jy Oc	Tracor $0.33	19⅝	16.9	40c	—	1.3
Ja Ap Ja Oc	Transamerica $1	25¼	30.6	$1.84	—	4.4
Fe My Au No	Transworld Corp $5	12½	11.11	20c	—	1.0
Mc Je Se De	TRINOVA Corp.	26	11.8	$1.00		2.4
Mr Je Se De	USX $1	22½	30.10	$1.20	—	3.3
Ag Nv Fb Jn	Union Carbide $1	16¾	4.8	$1.50	—	5.5
Mr Ju Sp Dc	Utd. Technologies	34⅝	19.5	$1.40	—	2.5
Fb My Ag No	US West	35½	13.4	$3.28	—	5.7
—	Waste Management $1	28⅞	—	—	—	—
—	Whirpool $1.0	£22½	—	—	—	—
Mr Je Se De	Woolworth $3½	29⅞	19.11	$1.32	—	2.7

CANADIANS

Dividends Paid	Stock	Price £	Last xd	Div Gross	C'vr	Y'ld Gr's
—	ABM Gold Corp	394p	—	—	—	—
—	Abbot Energy Corp.	20½	—	—	—	—
—	Amer. Barrick Res.	17¼	—	—	—	—
—	Amer. Dalec	84p	—	—	—	—
—	American Lightwave	39p	—	—	—	—
	Armeno	79p	—	—	—	—
Fb My Ag Nv	Bk. Montreal	14½	24.11	$2.00	—	6.3
Ja Ap Ja Oc	Bk. Nova Scot.	760p	23.9	72c	—	4.4
Ap Jy Oc Ja	BCE	18¼	10.9	$2.40	—	6.2
May Nov	Bow Valley	866p	15.12	40c	—	—

[illegible]

BANKS, HP & LEASING

[illegible]

BEERS, WINES & SPIRITS

[illegible]

BUILDING, TIMBER, ROADS

[illegible]

BUILDING, TIMBER, ROADS—Cont

[illegible]

CHEMICALS, PLASTICS

[illegible]

DRAPERY AND STORES

[illegible]

DRAPERY AND STORES—Cont.

[illegible]

ELECTRICALS

[illegible]

ENGINEERING

[illegible]

ENGINEERING—Continued

[illegible]

FOOD, GROCERIES, ETC

[illegible]

HOTELS AND CATERERS

[illegible]

INDUSTRIALS (Miscel.)

[illegible]

INDUSTRIALS—Continued

[illegible]

INDUSTRIALS—Continued

[illegible]

INSURANCES

[illegible]

LONDON SHARE SERVICE

INSURANCES—Continued

Dividends Paid		Stock	Price	Last xd	Div Net	C'vr	Y'ld Gr's	P/E
Jan	July	PWS Holdings 10p	348	1.6	ш10.5	2.9	4.2	12.7
Oct.June		Pearl Group 5p	458xd	14.9	†10.5	—	3.1	—
Nov.	May	Prudential	£38½	6.4	†29.0	—	3.8	—
Nov.	May	Refuge 5p	568xd	14.9	15.75	—	3.8	—
Jan.	May	Royal	588	23.3	†ф15.5	—	3.7	—
—		Saltire Ins. Inv.	188	—	—	—	—	—
April	Oct.	Sedgwick Group 10p	287xd	24.9	12.0	1.7	5.7	12.3
May	Nov	Steel Burrill J.10p	235xd	14.9	†9.0	2.0	5.2	13.1
Nov.	July	Stewart Wr. 20p	530	11.5	ф13.0	2.0	3.4	18.8
Mar	Sept	Sturge Hldgs 20p	517	27.7	†16.0	2.5	1.6	33.9
Jan.	July	Sun Alliance	£11½	11.5	†23.5	—	2.8	—
June	Nov.	Sun Life 5p	£22½	6.4	†28.5	—	3.1	—
April		¶Taisho M EDR	£49½	25.3	q010%	—	0.8	—
Fb My Au Nv		Torchmark $1.00	£31¾	10.7	Q$1.00	—	3.3	—
Nov.	May	Trade Indemnity	380	6.4	†14.3	—	1.6	—
Mr Ju Sp De		Travelers $1.25	£26½	28.7	$2.28	—	5.3	—
—		USF & G Corp $2.50	£26¼xd	22.08	Q$2.48	—	6.3	—
Dec.	June	USLIFE Corp. $1.0	£23¼	5.8	Q$1.20	3.2	3.1	5.1
June	Nov	¶Utd Friendly B 10p	728	1.6	21.0	—	4.0	—
May	Nov	Willis Faber 12½p	348	27.4	†10.75	2.4	4.3	13.1
Mar.	July	Windsor Secs. 10p	116	22.12	†0.7	1.5	0.8	—

LEISURE

Dividends Paid		Stock	Price	Last xd	Div Net	C'vr	Y'ld Gr's	P/E
October		¶A & M Group 10p	27½	11.8	—	—	—	ф
—		Airtours 10p	195	—	R5.4	2.5	3.9	14.2
May	Aug	Anglia TV	486	29.6	†ф11.25	3.3	3.2	13.5
—		¶Aspinall Hldgs. 10p	172	23.2	ф6.0	1.2	4.8	23.6
		¶Avesco 1p	111	13.7	0.5	6.7	0.6	31.4
—		¶BCE Hldgs 5p	92½	10.8	L4.0	ф	2.6	ф
July	Nov	Barr & W.A.T. 'A'	295xd	29.9	†8.0	1.4	3.7	24.0
		Bond Media	47		—	—	—	—
—		Boosey & Hawkes	238	4/84	—	—	—	—
		¶Border T.V.	66xd	14.9	1.4	ф	3.0	ф
June	Dec	Brent Walker 10p	376	27.4	ф8.5	2.2	3.6	18.1
—		Do 6pc.Cv.Cm.Red.Pf	104	—	6.0	—	7.9	—
Mar.	Nov.	Campari Int. 20p	252xd	14.9	†3.0	5.1	1.6	12.9
—		Castle Comms. 5p	278	—	R7.0	2.2	3.5	17.7
May	Nov	Capital Radio 10p	182	11.5	W†5.0	1.8	3.8	19.7
Nov	May	Central ITV	684	6.4	†17.0	2.3	3.4	17.6
Jan	July	Chrysalis	252	27.4	5.6	2.1	3.0	21.1

[illegible]

MOTORS

Motors and Cycles

[illegible]

Commercial Vehicles

[illegible]

Components

[illegible]

Garages and Distributors

[illegible]

NEWSPAPERS, PUBLISHERS

[illegible]

PAPER, PRINTING, ADVERTISING

[illegible]

PAPER, PRINTING—Continued

[illegible]

PROPERTY

[illegible]

SHIPPING

[illegible]

SHOES AND LEATHER

[illegible]

SOUTH AFRICANS

[illegible]

TEXTILES

[illegible]

TEXTILES—Cont.

[illegible]

TOBACCOS

[illegible]

TRUSTS, FINANCE, LAND

Investment Trusts

[illegible]

FINANCE, LAND—Cont.

[illegible]

OIL AND GAS

[illegible]

OIL AND GAS—Continued

[illegible]

OVERSEAS TRADERS

[illegible]

PLANTATIONS

Rubbers, Palm Oil

[illegible]

Teas

[illegible]

MINES

Central Rand

[illegible]

Eastern Rand

[illegible]

Far West Rand

[illegible]

O.F.S.

[illegible]

Diamond and Platinum

[illegible]

Central African

[illegible]

Finance

[illegible]

Australians

[illegible]

MINES—Continued

[illegible]

Tins

[illegible]

Miscellaneous

[illegible]

THIRD MARKET

[illegible]

NOTES

[illegible] tender price. F Dividend and yield based on prospectus or other official estimates for 1986-87. G Assumed dividend and yield after pending scrip and/or rights issue. H Dividend and yield based on prospectus or other official estimates for 1986. K Dividend and yield based on prospectus or other official estimates for 1987-88. L Estimated annualised dividend, cover and p/e based on latest annual earnings. M Dividend and yield based on prospectus or other official estimates for 1985-86. N Dividend and yield based on prospectus or other official estimates for 1987. P Figures based on prospectus or other official estimates for 1987. Q Gross. R Forecast annualised dividend, cover and p/e based on prospectus or other official estimates. T Figures assumed. W Pro forma figures. Z Dividend total to date.

Abbreviations: xd ex dividend; xc ex scrip issue; xr ex rights; xa ex all; xd ex capital distribution.

REGIONAL & IRISH STOCKS

The following is a selection of Regional and Irish stocks, the latter being quoted in Irish currency.

Albany Inv 20p	98	
Craig & Rose £1	738	
Finlay Pkg. 5p	110	−1
Holt (Jos) 25p	£18¼	
IoM Stm. £1	268	
IRISH		
Fund 11¾% 1988	£100¼	
Nat. 9¾% 84/89	£98¾	
Fin. 13% 97/02	£106¼	
Arnotts	375	
CPI Hldgs	85xd	
Carroll Inds.	188	−2
Dublin Gas	40	
Hall (R. & H.)	150xd	+5
Heiton Hldgs.	60	−2
Irish Ropes	210	
Unidare	430	

TRADITIONAL OPTIONS

3-month call rates

Industrials	p
Allied-Lyons	40
Amstrad	19
BAT	62
BOC Grp.	50
BSR	17
BTR	36
Babcock	32
Barclays	52
Beecham	52
Blue Circle	58
Boots	38
Bowaters	58
Brit Aerospace	58
Brit. Telecom	28
Burton Ord	32
Cadburys	25
Charter Cons.	45
Comm Union	34
Courtaulds	45
FNFC	32
Gen Accident	95
GEC	22
Glaxo	200
Grand Met	50
GUS 'A'	125
Guardian	95
GKN	38
Hanson Tst.	17
Hawker Sidd	58
ICI	125
Jaguar	52
Ladbroke	45
Legal & Gen	32
Lex Service	45
Lloyds Bank	35
Lucas Inds	75
Marks & Spencer	22
Midland Bk	45
Morgan Grenfell	55
NEI	13
Nat West Bk	65
P & O Dfd	65
Plessey	20
Polly Peck	34
Racal Elect	32
RHM	35
Rank Org Ord	70
Reed Intnl	50
STC	30
Sears	16
TI	37
TSB	12
Tesco	18
Thorn EMI	65
Trust Houses	25
Turner Newall	26
Unilever	62
Vickers	20
Wellcome	42
Property	
Brit Land	30
Land Securities	50
MEPC	48
Peachey	40
Oils	
Brit Petroleum	32
Britoil	30
Burmah Oil	52
Charterhall	10
Premier	11
Shell	125
Tricentrol	11
Ultramar	26
Mines	
Cons Gold	125
Lonrho	28
Rio T Zinc	100

A selection of Options traded is given on the London Stock Exchange Report Page.

DIARY DATES

FINANCIAL

TODAY

COMPANY MEETINGS-
Merrydown Wine, Horam Village Hall, Horam Heathfield, East Sussex, 12.00
Property Trust, Cafe Royal, 68, Regent Street, W., 10.00
Smith (David S.), Connaught Rooms, Great Queen Street, W.C., 12.00
Stormgard, Swallow Hotel, South Normanton, Derbyshire, 11.00

BOARD MEETINGS-
Finals:

WEDNESDAY SEPTEMBER 30

COMPANY MEETINGS-
Anglo American Agriculture, 64, Lincoln's Inn Fields, W.C., 12.00

Buckley's Brewery 5½% Cum Prf 1.925p
Burtonwood Brewery 7% Cum Prf 2.45p
Caister Group 7½% Deb 1987/92 3¾pc
Caledonia Invs. 5% Cum A Prf 1.75p
Do B Prf 1.75p

Do. 8% Gtd Un. Ln. 1988/93 4pc.
Greycoat Group 12.85% Un Ln. 1990/92 6.425pc.
Grindlays Eurofinance Flg. Rate Nts. 1992 $343.12

Marshalls Halifax 4.5p
Menzies (John) 9% Cum. Prf. 4.5p
Metal Box 4.9% Cum Prf. 2.45p
Metropolitan Tst. 4½% Cum. Prf. 1.575p
Do. 5% Cum. Prf 1.75p
Metropolitan Water 3% A 1983/2003 1½pc.
Do. Lambeth 3% Red. deb. 1½pc.
Do. London Bridge Anns. £1.25
Mexico Fund. 15cts.
Mid Kent Water 8¾% Red. Prf. 1987 4.375p
Mid-Sussex Water 7% Red. Prf. 1988/90 3.5p
Do. 8¼% Red. Prf. 1996 4.625p
Do. 12% Red Deb. 2010 6pc.

United Scientific 2.4p
Valor 4.24p
Victoria Carpet Hldgs. 2.75p

SATURDAY OCTOBER 3

DIVIDEND & INTEREST PAYMENTS-
Mid-Sussex Water 12½% Red. Deb. 1987/88 6¼pc.
Victor Products 10% Cum. Prf. 5p

SUNDAY OCTOBER 4

DIVIDEND & INTEREST PAYMENTS-
Burtonwood Brewery 7% Cum. Prf. 2.45p

Contracts & Tenders

Company Notices

Personal

BUSINESSMAN'S DIARY

Trade Fairs and Exhibitions:UK

Current
Automotive Trade Show (until October 1)(01-235-7000)
Earls Court

September 27-30
Harrogate Fashion Fair (01-637 2400)
Harrogate Exhibition Centre

September 29-October 1
Fashion Fabrex Exhibition (01-385 1200)
Olympia

October 1-3
"Building a Better Britain" Exhibition (01-724 5012)
Business Design Centre, London

October 6-8
Transport and Distribution Services Show (01-900 1234)
Wembley Conference Centre

October 13-16
Meeting Place for Technology Transfer Exhibition - BARCLAYS TECHMART (021-780 4171)
NEC, Birmingham

October 15-17
Money Show (0895 58431)
Liverpool

October 18-21
International Video and Communications Exhibition (01-340 1871)
Metropole Exhibition Hall, Brighton

October 20-23
International Feight Industry Conference and Exhibition - WORLD FREIGHT (01-642 7688)
Barbican Centre, London

October 26-28
UK Corrosion Exhibition and Conference (0202 35544)
Metropole Exhibition Hall, Brighton

November 3-7
International Plastics Exhibition - INTERPLAS (021-705 6707)
NEC, Birmingham

November 8-10
Camping and Outdoor Leisure Exhibition -COLA (0895 34191)
Exhibition Centre, Harrogate

November 10-12
Drives,Motors, Controls and PC+ Systems Exhibitions (0799 26699)
NEC, Birmingham

September 29-30
Display and Incentives Exhibition (Dublin 900000)
Dublin

September 30-October 4
Overseas Import Fair "Partners for Progress" (01-930 7251)
Berlin

October 6-10
Machine Tools Exhibition - FINNTEC (01-486 1951)
Helsinki

October 10-15
International Photographic Cinegraphic and Optical Equipment Exhibition (01-255 5566)
Paris

October 14-17
International Electronics Fair (01-077 4551)
Vienna

October 16-22
Automobile Equipment & Maintenance Industries Exhibition - EQUIPAUTO (01-225 5566)
Paris

October 13-18
Gifts,Toys and Housewares Market Week (01-937 1889)
Manila

October 24-November 1
National Transportation Fair - BRASIL TRANSPO (01-499 0877)
Sao Paulo

Business and Management Conferences

September 28
Information for Energy Group:Energy statistics (01-636 1004)
61 New Cavendish Street, W1

September 29-30
Acquisitions Monthly/Business Research International:How to buy and sell companies (01 637 4383)
Hotel Inter-Continental,W1

September 29-October2
RDMP:EPoS with EFTPOS congress and exhibition in retailing and distribution (0273 203581)
Barbican Centre,EC2

September 30
I.P. Sharp Associates: Market opportunities for stock lending and the role of technology (01-222 7033)
Stationers Hall, EC4.

October 4-9
IPM:Selecting managers-advanced interviewing and assessment skills (01-946 9100)
Bristol

October 5-6
Securities Industry Association: First international conference - international capital markets: opportunities and challenges (New York 212) 608-1654)
New York City

October 11-13
Philadelphia Stock Exchange: The 1987 international foreign currency options symposium - the practical and political uses of foreign currency options (01-606 2348).
Four Seasons Hotel, Philadelphia

October 12-13
Longman Seminars: 7th annual UK tax congress - 'Today's tax traps and how to avoid them (01-242 4111)
Kensington Town Hall, W8

October 14
Financial Times: International securities business and the Financial Services Act (01-925 2323)
Hotel Inter-Continental, W1

October 15-16
Financial Times: Retail financial services - from now to 2000 (01-925 2323)
Hotel Inter-Continental, W1

October 15
IBC: The integration and integrity of financial trading systems (01-236 4080)
London Marriott Hotel

October 19-20
Financial Times: Electronic financial services - competition and co-operation (01-925 2323)
Hotel Inter-Continental, W1

October 22
Space Planning Services: People and premises - a strategic approach to balancing conflicting demands (01-573 2271)
Butchers Hall, EC1

Art Galleries

Clubs

Legal Notice

WORLD STOCK MARKETS

AUSTRIA

1987 High	Low	Sep. 25	Price Sch.
2410	1890	Creditanstalt	2220.00
3450	2460	Goesser	3375.00
13200	10,800	Interunfall	12680.00
14,000	7050	Jungbunzlauer	8940
2160	1740	Laenderbank	2040.00
780	565	Perlmooser	715.00
167	108	Steyr-Daimler	125.00
1113	690	Veitscher Mag	863.00

BELGIUM/LUXEMBOURG

1987 High	Low	Sep. 25	Price Frs.
3465	2900	B.B.L.	3200
16000	14500	Banque Gen. Du. L.	14500
15200	14250	Bank Int. A	14250
13175	9000	Bekaert B	10950
6880	3900	Ciment CBR	6710
186	131	Cockerill	177
12100	7500	Colruyt	11000
4700	2700	Delhaize	4570
5500	4685	EBES	4800
2700	1320	Fabrique Nat	1448
1440	926	GB Inno BM	1280
4525	3430	GBL (Brux) L	4160
6850	6080	Generale Bank	6290
9260	6000	Gevaert	8100
9100	6680	Hoboken	8250
4510	3765	Intercom	3790
4900	4040	Kredietbank	4450
13500	10,650	Pan Holdings	13500
14175	9210	Petrofina	13050
1870	1520	Raffinerie Tirle	1775
8000	5000	Royale Belge	6010
4195	3115	Soc Gen Belge	3720.00
16350	10375	Sofina	14700
15700	8270	Solvay	15525
550	185	Stanwick Intl.	550
8550	6280	Tractebel	7820
11950	8900	UCB	11025
6000	5160	Wagons Lits.	5700

DENMARK

1987 High	Low	Sep. 25	Price Kr %
1140	720	Baltica Hldgs.	1020.00
288	237	Cop Handelsbank	256.00
410	280	D. Sukkerfab	295.00
375	297	Den Danske Bank	337
228	160	East Asiatic	198.00
1040	805	Forenede Brygg.	905
357	211	GNT Holding	230.00
880	695	I.S.S.B. Systems	815.00
575	455	Jyske Bank	535
298	208	Novo Inds.*	208.00
295	243	Privatbanken	262.00
1050	675	Sophus Berendsen	1000.00
254	149	Superfos	[illegible]

GERMANY

1987 High	Low	September 25	Price Dm.
523	375	Bayer-Verein	484.00
543	390	BHF-Bank	473.50
787	455	BMW	732.50
369	270	Brown Boveri	353.50
312	244.5	Commerzbank	298.00
374	269	Cont'l Gummi	326.00
1220	920	Daimler-Benz	1064.00
579	420	Degussa	539.00
254	200	D'sche Babcock	238.50
790	571	Deutsche Bank	691.00
381	286	Dresdner Bank	359.00
350.5	268	Feldmuehle Nobel	317.00
588.5	458	Henkel	578.00
1110	612	Hochtief	685.00
344	240	Hoechst	316.80
137.9	88	Hoesch Werke	126.00
555	367	Holzmann (P)	400.00
293	201	Horten	242.00
690	507	Hussel	658.00
583	405	Karstadt	583.00
537.5	447	Kaufhof	506.50
200	142	KHD	185.00
163.5	130	Kloeckner Werke	137.10
795	589	Linde	739.00
215.5	122	Lufthansa	174.00
202	148	MAN	191.80
187.5	142	Mannesmann	175.50
1055.5	740	Mercedes Hld.	936.00
395	290	Metallgesell	375.00
2700	1550	Muench Rueck	1980.00
866.5	687	Nixdorf	826.00
1025	815	Porsche	962.00
206	145	Preussag	197.00
266.5	186	Rhein West Elect.	239.00
346	238	Rosenthal	297.00
691	524	Schering	604.50
747.5	620	Siemens	654.50
142	109	Thyssen	133.00
388	311	Varta	359.00
333	252	Veba	310.50
180	139.5	V.E.W.	168.00
486	375	Verein-West	458.00
430	312	Volkswagen	383.00

NETHERLANDS

1987 High	Low	Sep. 25	Price Fls.
66.8	55.5	ACF Holding	58.00
101.1	78	AEGON	86.40
112	91.2	Ahold	104.40
178.4	127.3	AKZO	176.90
53	44.4	ABN	46.60
75.4	57.8	AMEV	59.80
90.9	70	AMRO	83.00
65.3	48.2	Buehrmann-Tet.	63.20

Indices

CANADA

TORONTO

	Sept. 25	Sept. 24	Sept. 23	Sept. 22	1987 High	1987 Low
Metals & Minerals	3417.9	3426.7	3349.0	3312.0	3483.6(4/8)	1988.2 (2/1)
Composite	3936.6	3938.3	3919.5	3891.9	4112.9(13/8)	3067.8 (2/1)
MONTREAL Portfolio	1950.18	1956.84	1952.91	1939.30	2224.77 (16/7)	1534.3 (2/1)

NEW YORK ACTIVE STOCKS

Friday	Stocks traded	Closing price	Change on day
Roch Gas	4,912,600	17⅞	+⅛
Ford Motor	3,148,700	97¼	−3¾
J C Indes	2,558,200	38	+3⅞
Comw Ed	2,152,000	31⅛	—
Pacific Tel	2,029,300	31⅛	+1⅛
Chrysler	1,687,600	41⅛	−1⅞
Dayton Hud	1,579,500	59	+1⅛
Irving Bank	1,567,800	78	+25¼
Exxon	1,433,500	48⅝	+⅛
SW Bell	1,404,900	43¾	+⅛

**Saturday September 19: Japan Nikkei (c). TSE (c)

Base values of all indices are 100 except Brussels SE—1,000 JSE Gold—255.7 JSE Industrials—264.3 and Australia. All Ordinary and Metals—500; NYSE All Common—50; Standard and Poor's—10; and Toronto Composite and Metals—1000. Toronto indices based 1975 and Montreal Portfolio 4/1/83. † Excluding bonds. ‡ 400 Industrials plus 40 Utilities, 40 Financials and 20 transports. (c) Closed. (u) Unavailable.

Closing prices, September 25

NEW YORK STOCK EXCHANGE COMPOSITE CLOSING PRICES

12 Month High	12 Month Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
38½	21	AAR s	.50	1.3	23	182	37⅞	37⅜	37½	−⅜
52	23¾	ADT	.92	1.8	29	178	51⅞	51¾	51¾	
31¼	16¾	AFG s	.16	.5	11	813	30⅛	29	30⅛	+⅞
23¾	8½	AGS s			22	726	u23⅞	23	23¾	+¾
10½	6¾	AMCA				3	9½	9⅜	9½	+⅛
9⅜	4⅞	AM Intl				1342	7¼	7	7⅛	+¼
65½	50½	AMR			12	3174	55¼	54	55⅛	+⅞
25	22¼	ANR pf	2.12	9.5		1	22⅜	22⅜	22⅜	
12¼	8¼	ARX s			11	103	11⅛	10⅝	10⅝	−⅜
73½	34⅜	ASA	2a	3.1		201	63¾	63⅜	63½	−½
20⅛	9¾	AVX			41	1079	u20½	19⅝	20½	+1
67	41⅛	AbtLab	1	1.7	23	7008	58⅝	57½	58⅛	−½
28	23¼	Abitibi g				118	23⅞	23¾	23¾	−¼
16¾	9¾	AcmeC	.40	3.1	13	40	13	12⅞	12⅞	−¼
10½	6⅛	AcmeE	.32b	3.6	56	52	9⅛	9	9	
23⅞	19	AdaEx	3.42e	16.		58	21⅞	21⅝	21¾	+⅛
19½	10	AdmM s	.24	2.0	9	554	12¼	11¼	12¼	+¾
28⅞	12⅛	AdvSys	.62t	2.3	18	56	26⅞	26⅜	26⅞	
24½	12⅞	AMD				4880	23	21⅞	21⅞	−⅞
56⅝	47	AMD pf	3	5.7		392	53½	52¾	52¾	−¼
11⅞	5¼	Adobe				47	9½	9¼	9½	
20½	14¾	Adob pf	1.84	9.7		1	18⅞	18⅞	18⅞	
21⅞	17	Adob pf	2.40	12.		23	20½	20½	20½	
15	10⅞	Advest	.12a	1.1	9	245	11⅜	11⅛	11¼	+⅛
68¼	53	AetnLf	2.76	4.6	8	6369	60	59½	59¾	
83½	28⅜	AhlPb s	.32	.5	22	428	72½	70⅝	71	−¼
26⅞	18⅝	Ahmans	.88	4.3	7	877	20½	20¼	20½	

Continued on Page 45

NYSE COMPOSITE CLOSING PRICES

Continued from Page 44

12 Month High	Low	Stock	Div.	Yld.	P/E	Sls 100s	High	Low	Close Quote	Ch'ge Prev. Close
26½	16⅝	PhlVH s .28		1.8	12	303	16⅝	15¾	16	−¼
13½	5⅜	Phlcrp n				128	5⅞	5¾	5¾	
71	42¼	PiedAv .32		.5	15	271	63⅞	63¾	63¾	−¼
71	55	PiedA pf				60	65¾	65¾	65¾	+¾
26¼	19⅞	PiedNG1.32		5.6	11	12	23⅞	23⅝	23⅝	−¼
14⅝	7¼	Pier 1 .06		.5	29	528	13	12⅝	13	+⅛
9½	7¼	PilgRg .27e		3.3		165	8¼	8⅛	8⅛	
15⅝	7⅛	PilgPr n.04e		.5	8	120	8⅛	7⅞	8	−⅛
48⅞	32½	Pilsby s 1		2.3	20	843	44⅝	43½	43¾	−⅝
33¾	27½	PinWst 2.80		9.3	9	1265	30½	29⅞	30	−½
45¼	22¼	PionrEL13e		.3	60	100	42¼	41¼	42¼	+1⅛
50¼	29⅝	PitnyB s .76		1.6	21	1059	47½	46⅞	47⅛	−⅛
18⅛	11⅛	Pittstn			60	1272	15¾	15¼	15⅝	−⅛
21⅝	18¼	PlcrD gn.20				2637	20⅞	20½	20⅞	+⅛
33¾	23½	PlainsP.05e		.2	60	129	28	27½	28	+½
25¼	15½	Plantrn .16		.7	15	9	21¾	21¾	21¾	−¼
16⅝	6¾	Playboy			19	54	14¼	13⅞	13⅞	−½
8	4¼	PogoPd				136	6¾	6½	6¾	
42¾	29⅝	Polard s .60		1.8	17	11792	33¾	32	32⅝	+¾
27¼	9¾	PopTals.44		1.9	10	304	23½	23	23⅛	−¼
17	11⅛	Portec				6	12¼	12	12	−½
34½	22¾	PortGC1.99		8.1	13	783	24¼	23½	24⅛	+¼
29½	27¼	PorG pf2.60		9.3		1	28	28	28	−⅜
41⅞	26¼	Potlch s.64		2.4	13	135	34⅞	34	34⅝	−⅜
88	62½	Potlt pf 3.75		5.2		22	72	72	72	
27⅜	21¼	PotmE s1.30		5.9	11	1646	22⅛	21⅝	22	+¼
160	129	PotEl pf2.44		1.8		2	133	133	133	
29⅞	17½	Promk n .32		1.2		294	28	27¾	27¾	−¼
47¼	26⅞	Premin .44		1.0	26	16	46⅛	45⅞	45⅞	−⅛
29⅝	21⅞	Primrk 1.30		5.7	9	394	23	22¼	22⅞	+⅜
31	15⅝	PrimeC			24	4075	26⅞	25¾	26	−⅞
46½	29¼	PrimeM08		.2	26	723	45¾	45⅛	45⅛	
21¾	16¼	PrmMLA1.54e		9.4		19	16½	16¼	16⅝	−⅛

Sales figures are unofficial. Yearly highs and lows reflect the previous 52 weeks plus the current week, but not the latest trading day. Where a split or stock dividend amounting to 25 per cent or more has been paid, the year's high-low range and dividend are shown for the new stock only. Unless otherwise noted, rates of dividends are annual disbursements based on the latest declaration.

a-dividend also extra(s). b-annual rate of dividend plus stock dividend. c-liquidating dividend. cld-called. d-new yearly low. e-dividend declared or paid in preceding 12 months. g-dividend in Canadian funds, subject to 15% non-residence tax. i-dividend declared after split-up or stock dividend. j-dividend paid this year, omitted, deferred, or no action taken at latest dividend meeting. k-dividend declared or paid this year, an accumulative issue with dividends in arrears. n-new issue in the past 52 weeks. The high-low range begins with the start of trading. nd-next day delivery. P/E-price-earnings ratio. r-dividend declared or paid in preceding 12 months, plus stock dividend. s-stock split. Dividends begin with date of split. sls – sales. t-dividend paid in stock in preceding 12 months, estimated cash value on ex-dividend or ex-distribution date. u-new yearly high. v-trading halted. vi-in bankruptcy or receivership or being reorganised under the Bankruptcy Act, or securities assumed by such companies. wd-distributed. wi-when issued. ww-with warrants. x-ex-divident or ex-rights. xdis-ex-distribution. xw-without warrants. y-ex-dividend and sales in full. yld-yield. z-sales in full.

AMEX COMPOSITE CLOSING PRICES

Closing prices September 25

OVER-THE-COUNTER

Nasdaq national market, closing prices, September 25

Continued on Page 43

CURRENCIES, MONEY & CAPITAL MARKETS

FOREIGN EXCHANGES

Shifting trade balances may help dollar

SHORT COVERING boosted the dollar last week, as dealers squared positions ahead of the International Monetary Fund annual meeting in Washington. Finance ministers from the Group of Seven leading industrial nations met again to review world economic prospects and among other things the value of the US currency.

Very few traders were prepared to run positions, for fear that G7 would produce a fairly bland endorsement of the Paris currency agreement made in September, but might privately agree to a lower trading range for the dollar.

At the end of the previous week a Japanese newspaper report suggested th target range for the dollar would be reduced to Y130 to Y150. Later statements from various financial officials have pointed towards no change however. The market assumes the present target is Y140 to Y160.

The main factor in any calculation on the value of exchange rates remains the state of world trade, and there have been hints this month that the heavy imbalance is changing.

Irving Trust in London asked a question on Friday, which must have occured to other observers of the financial scene. "If Uncle Sam's trade deficit is getting bigger, ours (the UK) has gone through the roof, Germany and Japan's surplus is getting smaller, where is all the money going?" The answer may be somewhere in the latest trade figures. On Friday West Germany announced a cut in its current account surplus in August to DM 2.5bn ($1.37bn) from DM 4.7bn ($2.58bn) in July, while the trade surplus fell to DM 6.5bn ($3.57bn) from DM 9.9bn ($5.44bn).

Earlier this month the Japanese trade surplus for August was published. This narrowed to $5.15bn from $6.95 in July, and from $7.48bn a year ago. It was also announced that the trade surplus with the US had been cut to $3.73bn in August from $4.79bn the previous month and from $4.14bn in August 1986.

The UK does not appear to have been a beneficiary from this shift in world trade. Last Thursday London's financial markets were shocked by news that Britain's trade deficit in August had widened to £1.5bn ($2.46bn) from £910m ($1.49bn), and the current account deficit had increased to £929m ($1.52bn) from £310m ($508m).

Over the next few weeks dealers are likely to ask whether there will be a significant reduction in the US trade deficit.

In recent months the US trade figures have been particularly disappointing. In May the deficit was $14.4bn, and in June this rose to $15.7bn, in spite of revised calculations on US trade with Canada. Without the revision the shortfall would have been $16.3bn.

In July the deficit was a record $16.47bn, but after the figures for West Germany and Japan in August, there must be some hope the US deficit in August will show a signicant fall.

The balance in world trade will ultimately decide the dollar's fate, although the short term trend might depend on the talks in Washington.

A few US statistics will be released this week, but are unlikely to have much impact. Leading indicators in August are forecast to rise 0.4 per cent to 0.7 per cent, compared with 0.5 per cent in July. September unemployment is expected to remain at 6 per cent, with the non-farm payroll rising about 200,000, compared with 156,000 in August.

£ IN NEW YORK

Sept. 25	Latest	Previous Close
£ Spot	1.6420-1.6430	1.6445-1.6450
1 month	0.33-0.31pm	0.30-0.29pm
3 months	0.97-0.94pm	0.93-0.90pm
12 months	2.70-2.60pm	2.78-2.68pm

Forward premiums and discounts apply to the U.S. dollar.

EMS EUROPEAN CURRENCY UNIT RATES

	Ecu central rates	Currency amounts against Ecu Sept 24	% change from central rate	% change adjusted for divergence	Divergence limit %
Belgian Franc	42.4582	43.0855	+1.48	+0.79	±1.5344
Danish Krone	7.85212	7.98946	+1.75	+1.06	±1.6404
German D-Mark	2.05853	2.07596	+0.85	+0.16	±1.0981
French Franc	6.90403	6.92101	+0.25	−0.44	±1.3674
Dutch Guilder	2.31943	2.33647	+0.73	+0.04	±1.5012
Irish Punt	0.768411	0.774722	+0.82	+0.13	±1.6684
Italian Lira	1,483.58	1,498.17	+0.98	+0.29	±4.0752

Changes are for Ecu, therefore positive change denotes a weak currency. Adjustment calculated by Financial Times.

STERLING INDEX

	Sept. 25	Previous
8.30 am	73.0	73.2
9.00 am	73.0	73.2
10.00 am	72.9	73.2
11.00 am	73.0	72.7
Noon	73.0	72.8
1.00 pm	73.0	72.8
2.00 pm	73.0	72.8
3.00 pm	73.0	72.9
4.00 pm	73.03	72.9

POUND SPOT—FORWARD AGAINST THE POUND

[illegible]

Belgian rate is for convertible francs. Financial franc 62.95-62.45. Six-month forward dollar 1.71-1.66 c pm. 12-month 2.70-2.60 pm.

CURRENCY RATES

[illegible]

*CS/SDR rate for Sept. 24: 1.69403

DOLLAR SPOT—FORWARD AGAINST THE DOLLAR

[illegible]

† UK and Ireland are quoted in US currency. Forward premiums and discounts apply to the US dollar and not to the individual currency. Belgian rate is for convertible francs. Financial franc 37.95-38.05

CURRENCY MOVEMENTS

[illegible]

EURO-CURRENCY INTEREST RATES

[illegible]

Long-term Eurodollars: Two years 9¾-9⅞ per cent; three years 9⅞-10 per cent; four years 9⅞-10 per cent; five years 9⅞-10 per cent nominal. Short-term rates are call for US Dollars and Japanese Yen; others, two days' notice.

Correction for 24 Sept.: Three months French Franc 8¼-7⅞.

OTHER CURRENCIES

[illegible]

*Selling rate.

EXCHANGE CROSS RATES

Sept. 25	£	$	DM	Yen	F Fr.	S Fr.	H Fl.	Lira	C $	B Fr.
£	1.	1.643	2.990	236.0	9.970	2.483	3.365	2158.	2.158	62.00
$	0.609	1.	1.821	143.7	6.070	1.511	2.049	1314.	1.314	37.73
DM	0.334	0.549	1.	78.93	3.334	0.830	1.125	721.7	0.722	20.74
YEN	4.237	6.960	12.67	1000.	42.25	10.52	14.26	9144.	9.142	262.7
F Fr.	1.003	1.647	2.999	236.7	10.	2.490	3.375	2164.	2.164	62.19
S Fr.	0.403	0.662	1.204	95.07	4.016	1.	1.355	869.3	0.869	24.97
H Fl.	0.297	0.488	0.889	70.13	2.963	0.738	1.	641.3	0.641	18.42
Lira	0.463	0.761	1.386	109.4	4.620	1.150	1.559	1000.	1.000	28.73
C $	0.463	0.761	1.386	109.4	4.621	1.151	1.560	1000.	1.	28.74
B Fr.	1.613	2.649	4.823	380.6	16.08	4.004	5.427	3481.	3.480	100.

Yen per 1,000: French Fr per 10: Lira per 1,000: Belgian Fr per 100.

FORWARD RATES AGAINST STERLING

	Spot	1 mth	3 mths	6 mths	12 mths
US Dollar	1.6425	1.6394	1.6330	1.6257	1.6160
D-mark	2.9900	2.9754	2.9462	2.9084	2.8330
French Fr.	9.9700	9.9529	9.9235	9.8945	9.8593
Swiss Fr.	2.4825	2.4702	2.4443	2.4104	2.3435
Yen	236.00	234.93	232.82	229.71	223.99

LIFFE LONG GILT FUTURES OPTIONS

Strike Price	Calls—Last Dec	Calls—Last March	Puts—Last Dec	Puts—Last March
108	6.37	7.06	0.21	0.60
110	4.58	5.43	0.42	1.31
112	3.22	4.22	1.06	2.12
114	2.06	3.17	1.54	3.07
116	1.15	2.24	2.63	4.14
118	0.41	1.43	4.25	5.33
120	0.21	1.09	6.05	6.63
122	0.09	0.48	7.57	8.38

Estimated volume total, Calls 2,703 Puts 2,719
Previous day's open int: Calls 26,083 Puts 16,803

LIFFE US TREASURY BOND FUTURES OPTIONS

Strike Price	Calls—Last Dec	Calls—Last March	Puts—Last Dec	Puts—Last March
78	4.51	4.39	0.33	1.13
80	3.21	3.22	1.03	1.60
82	2.10	2.21	1.56	2.59
84	1.19	1.35	3.01	4.09
86	0.46	0.63	4.28	5.37
88	0.23	0.38	6.05	7.12
90	0.11	0.22	7.57	8.60
92	0.05	0.12	9.51	10.50

Estimated volume total, Calls 405 Puts 35
Previous day's open int: Calls 1,097 Puts 702

LIFFE FT-SE 100 INDEX FUTURES OPTIONS

Strike Price	Calls-Last Sept.	Calls-Last Oct.	Puts-Last Sept.	Puts-Last Oct.
22750	12.47	14.04	1.17	2.74
23000	10.50	12.28	1.70	3.48
23250	8.70	10.65	2.40	4.35
23500	7.08	9.16	3.28	5.36
23750	5.65	7.80	4.35	6.50
24000	4.42	6.58	5.62	7.78
24250	3.39	5.51	7.09	9.212
24500	2.55	4.56	8.75	0.765

Estimated volume total, Calls 9 Puts 2
Previous day's open int: Calls 53 Puts 61

LIFFE £/$ OPTIONS

£25,000 (cents per £1)

[illegible]

Estimated volume total, Calls 0 Puts 0
Previous day's open int: Calls 85 Puts 1,209

LONDON SE £/$ OPTIONS

£12,500 (cents per £1)

[illegible]

Previous day's open int: Calls 955 Puts 119
Volume: 0

PHILADELPHIA SE £/$ OPTIONS

£12,500 (cents per £1)

[illegible]

Previous day's open int: Calls 102,781 Puts 112,593
Previous day's volume: Calls 4,482 Puts 3,210

LIFFE-EURODOLLAR OPTIONS

$1m points of 100%

[illegible]

Previous day's open int: Calls 1073, Puts 1321
Estimated Vol: Calls 30, Puts 0.

LONDON

20-YEAR 12% NATIONAL GILT

£50,000 32nds of 100%

[illegible]

6% NOTIONAL LONG TERM JAPANESE GOVT BOND

Y100m 100ths of 100%

[illegible]

THREE-MONTH STERLING

£500,000 points of 100%

[illegible]

FT-SE 100 INDEX

£25 per full index point

[illegible]

CHICAGO

U.S. TREASURY BONDS (CBT) 8%

$100,000 32nds of 100%

[illegible]

U.S. TREASURY BILLS (IMM)

$1m points of 100%

	Close	High	Low	Prev.
Dec.	92.84	92.95	92.83	92.92
Mar.	92.50	92.57	92.48	92.57
Jun.	92.22	92.26	92.23	92.28
Sept.	92.02	—	92.05	92.09
Dec.	91.87	—	91.91	91.94
Mar.	91.75	—	91.79	91.83

SWISS FRANC (IMM)

SFr 125,000 $ per SFr

	Close	High	Low	Prev.
Dec.	0.6664	0.6675	0.6660	0.6677
Mar.	0.6726	0.6737	0.6724	0.6739
Jun.	0.6799	—	—	0.6807

JAPANESE YEN (IMM)

Y12.5m $ per Y100

[illegible]

DEUTSCHE MARK (IMM)

DM125,000 $ per DM

[illegible]

THREE-MONTH EURODOLLAR (IMM)

$1m points of 100%

	Close	High	Low	Prev.
June	90.89	90.96	90.86	90.93
Sept.	90.67	90.74	90.64	90.72
Dec.	90.50	90.58	90.47	90.55
Mar.	90.35	90.42	90.33	90.40
June	90.22	90.29	90.19	90.27
Sept.	90.10	90.16	90.08	90.15

STANDARD & POORS 500 INDEX

$500 times index

	Close	High	Low	Prev.
Dec.	324.50	324.50	320.85	322.40
Mar.	—	327.65	324.20	325.65
Jun.	—	330.85	327.50	328.85
Sep.	—	333.80	330.45	331.65

THREE-MONTH EURODOLLAR

$1m points of 100%

[illegible]

U.S. TREASURY BONDS 8%

$100,000 32nds of 100%

[illegible]

CURRENCY FUTURES

IMM—STERLING Se per £

	Close	High	Low	Prev
Dec.	1.6330	1.6350	1.6270	1.6320
Mar.	1.6250	1.6260	1.6200	1.6240
June	1.6170	1.6190	1.6130	1.6160

LIFFE—STERLING £25,000 $ per £

	Close	High	Low	Prev
Dec.	1.6320	1.6322	1.6322	1.6290
Mar.	1.6245	—	—	1.6207

Estimated volume 2 (40)
Previous day's open int 257 (280)

MONEY MARKETS

Fears of tighter monetary policy

UK clearing bank base lending rate 10 per cent since August 7

THERE WAS never very much optimism in London that UK bank base rates would soon be reduced, but lower rates have become an even more remote possibility after last week's UK trade figures.

Economic news this month has been generally better than expected, lulling the markets into a more confident mood. A cut in the trade deficit was widely forecast for August, and one or two City economists believed a small surplus on current account was not out of the question.

The Bank of England was expected to encounter problems holding the pound below DM 3.00 if there was a payments surplus, but in the event there was no need to worry.

Lower exports and rising imports led to a sharp rise in the trade deficit and a current account deficit of only slightly under £1bn.

Money market rates rose on the trade news, and although Mr Nigel Lawson, the Chancellor, played down the significance of the figures, speculation increased that the next move in base rates will be up.

Nomura Research Institute said the result is likely to be upward pressure in interest rates to defend the exchange rate, and the evaporation of optimism about tax cuts in next year's Budget as the fiscal stance is tightened.

Morgan Grenfell commented that the economy may be overheating, and that the August trade figures suggest demand is growing faster than supply can respond.

James Capel stated there is likely to be substantial scope for manoeuvre in the Budget but there is no economic excuse for a reduction in income tax.

FT LONDON INTERBANK FIXING

(11.00 a.m. Sept.25) 3 months U.S. dollars		6 months U.S. dollars	
bid 7⅝	offer 7¾	bid 8	offer 8⅛

The fixing rates are the arithmetic means, rounded to the nearest one-sixteenth, of the bid and offered rates for $10m quoted by the market to five reference banks at 11.00 a.m. each working day. The banks are National Westminster Bank, Bank of Tokyo, Deutsche Bank, Banque Nationale de Paris and Morgan Guaranty Trust.

BANK OF ENGLAND TREASURY BILL TENDER

[illegible]

MONEY RATES

NEW YORK (4pm)

Prime rate	8¾
Broker loan rate	8¾-8½
Fed. funds	7¼
Fed funds at intervention	7¼

Treasury Bills and Bonds: One month, Two month, Three month, Six month, One year, Two year [illegible]

September 25	Overnight	One Month	Two Months	Three Months	Six Months	Lombard Intervention
Frankfurt	3.50-3.60	3.80-3.95	[illegible]	[illegible]	[illegible]	[illegible]
Paris	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Zurich	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Amsterdam	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Tokyo	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Milan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Brussels	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dublin	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

LONDON MONEY RATES

[illegible]

WEEKLY CHANGE IN WORLD INTEREST RATES

[illegible]

London—band 1 bills mature in up to 14 days, band 2 bills 15 to 33 days, band 3 bills 34 to 63 days and band 4 bills 64 to 91 days. Rates quoted represent Bank of England buying or selling rates with the money market. In other centres rates are generally deposit rates in the domestic money market and their respective changes during the week.

NEW ZEALAND

£100,000,000 11¼ per cent. Stock 2008
£100,000,000 11½ per cent. Stock 2014

Notice is hereby given of the resignation of Lloyds Bank Plc as registrar for the above Stock and the appointment of the Bank of England as its successor, in both cases with effect from 28th September, 1987. The address of the Bank of England for this purpose will be its office at the Registrar's Department, New Change, London, EC4M 9AA. Lloyds Bank Plc will continue to act as Principal Paying Agent and as Exchange Agent and, accordingly, Forms of Exchange should continue to be lodged with Lloyds Bank Plc at Registrar's Department, Issue Section, 11 Bishopsgate, P.O. Box 1000, London, EC2N 3LB.

For and on behalf of
NEW ZEALAND

28th September, 1987